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# California

Forms & Instructions

## 100S

2001

S Corporation Tax Booklet

Members of the Franchise Tax Board

Kathleen Connell, Chair  
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**This Booklet Contains:**

**Form 100S**, California S Corporation Franchise or Income Tax Return

**Schedule B (100S)**, S Corporation Depreciation and Amortization

**Schedule C (100S)**, S Corporation Tax Credits

**Schedule D (100S)**, S Corporation Capital Gains and Losses and Built-in Gains

**Schedule H (100S)**, S Corporation Dividend Income Deduction

**Schedule K-1 (100S)**, Shareholder's Share of Income, Deductions, Credits, etc.

**Schedule QS**, Qualified Subchapter S Subsidiary (QSub) Information Worksheet

**FTB 3539**, Payment Voucher for Automatic Extension for Corporations and Exempt Organizations

**FTB 3805Q**, Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations—Corporations

**FTB 3830**, S Corporation's List of Shareholders and Consents



STATE OF CALIFORNIA  
**FRANCHISE TAX BOARD**

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# Instructions for Form 100S

## California S Corporation Franchise or Income Tax Return

References in these instructions are to the Internal Revenue Code (IRC) as of **January 1, 1998**, and to the California Revenue and Taxation Code (R&TC).

### What's New

- The "Bank and Corporation Tax Law" (B&CTL) has been renamed as the "Corporation Tax Law" (CTL). The term "bank" in the title of the Bank and Corporation Tax Law is no longer needed because banks are included in the definition of a corporation.
- For taxable years beginning on or after January 1, 2001, the Corporation Tax law would:
  - Allow a nonrefundable Solar Energy System Credit for certain approved photovoltaic or wind-driven solar energy systems. For more information, get form FTB 3508.
  - Allow farmers a deduction for losses sustained due to Pierce's disease and its vectors (PDV). This loss will create a net operating loss, which can be carried forward for nine years at 100%. For more information, get form FTB 3805D.
- Taxpayers are allowed special treatment for losses sustained as a result of the 2000 Napa Valley earthquakes. These disaster losses can be:
  - Carried back to the 1999 taxable year (if an election is filed by the extended due date for the taxable year in which the disaster actually occurred) and carried forward at 100% for five years, then carried forward an additional ten years at 50%, or
  - Claimed in the 2000 taxable year and carried forward at 100% for five years, then carried forward an additional ten years at 55%.
- A shareholder's pro-rata share of income from an S-corporation is treated the same as a partner's distributive share of income from a partnership. The income is treated as if it was realized directly from the source. Income from a California sources is subject to California tax law. *Valentino et. al. v. Franchise Tax Board* (CtApp. March 23, 2001) 105 Cal. Rptr. 2d 304.
- The Employer Child Care Program Credit and the Employer Child Care Contribution Credit are extended to taxable years beginning before January 1, 2007.
- The Community Development Financial Institution Investments Credit was amended to:
  - Extend the repeal date to January 1, 2007,
  - Rename "qualified deposits" to "qualified investments" and define "qualified investments," and
  - Limit the amount of the investments eligible for the credit.
- Joint Strike Fighter Credit "Wages/Property":
  - Joint Strike Fighter Wages Credit is 50% of qualified wages paid or incurred in taxable years beginning on or after

January 1, 2001, not to exceed \$10,000 for each qualified employee.

- Joint Strike Fighter Property Costs Credit is 10% of the cost of property placed in service in California for ultimate use in a joint strike fighter.

For more information, get form FTB 3534.

- In *Ceridian v. Franchise Tax Board* (2000) 85 Cal.App.4th 875, the Court of Appeal has determined that Section 24410, which provides a limited deduction for dividends received from an insurance company, is unconstitutional. The court did not address what effect its holding would have on other taxpayers. The matter has been brought to the attention of the members of the Franchise Tax Board, but as of the publication date of this form, no action has been taken. Taxpayers should monitor our Website at: [www.ftb.ca.gov](http://www.ftb.ca.gov) for further guidance on this matter.
- Starting this year, Form 100S has a separate line for nonresident withholding documented by copy B of Forms 592, 594, or 597. For more information, see Nonresidents paragraph under "Important Information" on this page.

### Tax Law Changes

In general, California law conforms to the Internal Revenue Code (IRC) as of January 1, 1998. However, there are continuing differences between California and federal law. California has not conformed to most of the changes made to the IRC by the federal Internal Revenue Service Restructuring and Reform Act of 1998 (Public Law 105-206) and the Ticket to Work and Work Incentives Improvement Act of 1999 (Public Law 106-170). California has not conformed to any of the changes made by the Tax and Trade Relief Extension Act of 1998 (Public Law 105-277), the Miscellaneous Trade and Technical Corrections Act of 1999 (Public Law 106-36), the FSC Repeal and Extraterritorial Income Exclusion Act of 2000 (Public Law 106-519), the Consolidated Appropriations Act of 2001 (Public Law 106-554), and the Economic Growth and Tax Relief Reconciliation Act of 2001 (Public Law 107-16).

#### California law changes effective for taxable years beginning on or after January 1, 2001.

- California tax law has partially conformed to the real estate investment trust (REIT) provisions of the Ticket to Work and Work Incentives Improvement Act of 1999 (Public Law 106-170) for taxable years beginning on or after January 1, 2001, except for the provisions relating to income from redetermined rents, redetermined deductions, and excess interest.

### Important Information

- You can download, view, and print California tax forms, instructions, publications, and Legal Notices and Rulings dated 96-1 and later. Go to our Website at: [www.ftb.ca.gov](http://www.ftb.ca.gov). Other state agencies' information can be accessed through the State Agency Index located on the California State Website at: [www.ca.gov](http://www.ca.gov).
  - Nonresidents who had tax withheld may use the withholding as a credit against tax when they file a California tax return. R&TC Section 18662 requires buyers to withhold income taxes when purchasing California real property from corporate sellers with no permanent place of business in California immediately after the transfer. For more information, get FTB Pub. 1016.
- Sellers of California real estate must attach copy B of Form 597, Nonresident Withholding Tax Statement For Real Estate Sales, to their tax return as proof of withholding.

If you need to verify withholding payments, you may call the Nonresident Withholding at Source Section at: toll free (888) 792-4900 or (916) 845-4900.

- For taxable years beginning on or after January 1, 2000, C corporations filing on a water's-edge basis are required to use Form 100W, California Corporation Franchise or Income Tax Return – Water's-Edge Filers, to file their California tax return. S corporations filing on water's-edge basis should continue to file Form 100S.
- Effective for years beginning on or after January 1, 2000, references to "income year" were replaced with "taxable year" in all provisions of the Corporation Tax Law (CTL), the Administration of the Franchise and Income Tax Law (AFITL), and the Personal Income Tax Law (PITL). When referring to an income measurement period beginning before January 1, 2000, the term "taxable year" should be interpreted to mean "income year."
- The Franchise Tax Board may request taxpayers to furnish a copy of California or federal tax returns that are or were subject to, or related to, a federal audit.
- R&TC Section 18622 defines the date of a "final federal determination" as the date that each adjustment resulting from a federal examination is assessed pursuant to IRC Section 6203. This new definition of a final federal determination supersedes the previous definition found in Title 18, Cal. Code Reg. Section 19059.

- The general Net Operating Loss (NOL) carryover percentage has changed. For taxable years beginning on or after:
    - January 1, 2000, and before January 1, 2002, 55% of the NOL may be carried forward;
    - January 1, 2002, and before January 1, 2004, 60% of the NOL may be carried forward; and
    - January 1, 2004, 65% of the NOL may be carried forward.
- Also, any NOL incurred in any taxable year beginning on or after January 1, 2000, may be carried forward for ten years.
- For corporations that incorporate or qualify to do business in California on or after January 1, 2000, the prepayment of the minimum franchise tax to the California Secretary of State (SOS) is no longer required. For the first taxable year the corporation will compute its tax liability by multiplying its state net income by the appropriate tax rate and will not be subject to the minimum franchise tax. The corporation will become subject to minimum franchise tax beginning in its second taxable year. This does not apply to qualified Subchapter S subsidiaries or corporations that are not qualified by the California SOS, or reorganize solely to avoid payment of its minimum franchise tax.
  - The sunset date of January 1, 2000, was eliminated and instead provides that the chapter authorizing the Tax Credit Allocation Committee to allocate the credit for the costs of constructing or rehabilitating low-income housing shall be in effect so long as the federal low-income housing credit is in effect.

**California law conforms to federal law for the following provisions:**

- Tax-exempt organizations may be shareholders in an S corporation.
- Family farm corporations with income over \$25 million may defer tax on income that was a result of changes in accounting methods required of these corporations. For calendar year taxpayers, the suspense account for these deferrals must be recaptured starting with taxable years beginning on or after January 1, 1998. For fiscal year taxpayers, the suspense account must be recaptured starting in taxable years beginning after June 8, 1997, if the fiscal year taxpayer's taxable year ends on or after December 31, 1997.
- Certain environmental remediation expenditures that would otherwise be chargeable to capital accounts may be expensed and taken as a deduction in the year the expense was paid or incurred. An election to expense environmental remediation costs for federal purposes is considered to be an election for state purposes and a separate election is not allowed.

- For purposes of inventory accounting, an adjustment for shrinkage, based on an estimate, may be made. Taxpayers can voluntarily change their method of accounting if the method currently being used does not utilize estimates of inventory shrinkage and the taxpayer now wishes to use that method.
- Required recognition of gain on certain appreciated financial positions in personal property.
- Allows securities traders and commodities traders and dealers to elect to use mark-to-market accounting similar to what is currently required for securities dealers. Commodities would include only commodities of a kind that are dealt with in the organized commodities exchange. An election to use the mark-to-market method for federal purposes is considered an election for state purposes and a separate election is not allowed.
- Limitation on exception for investment companies under IRC Section 351.
- For certain contributions of ordinary income and capital gain property, the IRC Section 170(e)(1) limitation is modified so that, in the case of charitable contribution of stock in an S corporation, rules similar to IRC Section 751 (relating to unrealized receivables and inventory items) apply in determining whether gain on the stock was long-term, if stock was sold by the S corporation.
- If an Employee Stock Ownership Plan (ESOP) is an S corporation shareholder, items of income or loss of the S corporation that flow through to the ESOP are not treated as unrelated business taxable income (UBTI). Previously, such items were treated as UBTI.
- S corporations which establish and maintain ESOPs are not required to give participants the right to demand distributions in the form of employer securities, if the participants have the right to receive such distributions in cash.
- An IRC Section 338 election, relating to stock purchases treated as asset acquisitions, is treated as an election for state purposes. A separate election for state purposes is not allowed.
- Expansion of deduction for certain interest and premiums paid for company-owned life insurance.
- Modification of holding period applicable to dividends received deduction.
- Repeal of special installment sales rule for manufacturers of tangible personal property.
- Required registration for abusive tax shelters.
- If for any taxable year beginning on or after January 1, 1987, a corporation failed to qualify as an S corporation solely because it did not file a timely federal Form 2553, Election by a Small Business Corporation, the S corporation shall be treated as an S corporation for California purposes for

the taxable year in which the federal election was originally made and for each subsequent taxable year if both the following conditions are met:

1. The corporation and all of its shareholders reported their income for California tax purposes on original returns consistent with S corporation status for the year the S corporation election should have been made, and for each subsequent taxable year (if any) until terminated; and
  2. The corporation and its shareholders filed a federal Form 2553 with the IRS requesting automatic relief with respect to the late S corporation election in full compliance with federal Rev. Proc. 1997-48 I.R.B. 1997-43 and the S corporation received notification of acceptance of the untimely filed S corporation election from the IRS. The S corporation shall provide a copy of the notification to the FTB upon request.
- Payment of estimated tax for closely held REITs and income and services provided by REIT subsidiaries.

**California law does not conform to federal law for the following:**

- Decreased capital gains tax rate.
- Certain special tax rules relating to employee stock ownership plans (ESOPs) will not apply with respect to S corporation stock held by the ESOP. These include rules relating to certain contributions to ESOPs, the deduction for dividends paid on employer securities, and the rollover of gain on the sale of stock to an ESOP. See IRC Sections 404(a)(9) and 404(k) for more information.
- Accelerated depreciation for property on Indian reservations.
- The elimination of the deduction for club membership fees. Also, California law does not conform to the disallowance of the deduction for employee remuneration in excess of \$1 million.
- The federal provisions disallowing the deduction for lobbying expenses. The expense is still deductible for California purposes.
- The treatment of Subpart F and Section 936 income.
- Temporary suspension of income limitations on percentage depletion for production from marginal wells. The percentage depletion deduction, which may not exceed 65% of the taxpayer's taxable income, is restricted to 100% of the net income derived from the oil or gas well property.

**Records Maintenance Requirements**

Any taxpayer filing on a water's-edge or worldwide basis is required to keep and maintain records and make available upon request the following:

- Any records needed to determine the correct treatment of items reported on the worldwide or water's-edge combined report for purposes of determining the income attributable to California;
- Any records needed to determine the treatment of items as nonbusiness or business income;
- Any records needed to determine the apportionment factor; and
- Documents and information needed to determine the attribution of income to the U.S. or foreign jurisdictions under IRC Subpart F, IRC Section 882, or other similar provisions of the IRC.

See R&TC Section 19141.6 and the related regulations for more information. A corporation may be required to authorize an agent to act on its behalf in response to requests for information or records pursuant to R&TC Section 19504.

**Note:** For information about the Power of Attorney, go to our Website at:

[www.ftb.ca.gov](http://www.ftb.ca.gov)

The penalty for failure to maintain the above required records is \$10,000 for each taxable year for which the failure applies. In addition, if the failure continues for more than 90 days after the Franchise Tax Board (FTB) notifies the S corporation of the failure, a penalty of \$10,000 may be assessed for each additional 30-day period of continued failure. For taxable years beginning on or after January 1, 1996, there is no maximum amount of penalty that may be assessed. See General Information M, Penalties, for more information.

## General Information

Form 100S is used if a corporation has elected to be a California small business corporation (S corporation).

All federal S corporations subject to California laws that did not make a California C corporation election must file Form 100S and pay the greater of the minimum franchise tax or the 1.5% income or franchise tax. The tax rate for financial S corporations is 3.5%.

In addition, if an S corporation has one or more shareholders who are nonresidents of California or trusts with nonresident fiduciaries, the S corporation must file form FTB 3830, S Corporation's List of Shareholders and Consents (included in this booklet). This list must include the names and social security numbers or federal employer identification numbers (FEIN) of all shareholders and each nonresident shareholder's or fiduciary's signed consent to be subject to California's jurisdiction to tax the shareholder's pro-rata share of income attributable to California sources.

R&TC Section 23801(b)(3) authorizes the FTB to retroactively revoke the S corporation status if the S corporation fails to file form FTB 3830 and meet the requirements outlined above.

The taxable income of the S corporation is calculated two different ways for two different

purposes. First, it is calculated in the same manner as for C corporations, with certain modifications, for purposes of computing the 1.5% income or franchise tax. Second, it is calculated using federal rules for the pass-through of income and deductions, etc. for purposes of pass-through to the shareholders.

**Note:** A corporation that makes a valid election to be treated as an S corporation for California purposes is not allowed to be included in a combined report of a unitary group, except as provided by R&TC Section 23801(d)(1).

## A Franchise or Income Tax

### Corporation franchise tax

Entities subject to the corporation franchise tax include all S corporations that are:

- Incorporated in California; or
- Qualified to do business in California; or
- Doing business in California, whether or not incorporated or qualified under California law.

The franchise tax is measured by the income of the current taxable year for the privilege of doing business in that taxable year.

The term "doing business" means actively engaging in any transaction for the purpose of financial gain or profit.

### Corporation income tax

The corporation income tax is imposed on all S corporations that derive income from sources within California but are not doing business in California.

For purposes of the corporation income tax, the term "corporation" is not limited to incorporated entities, but also includes:

- Associations;
- Massachusetts or business trusts;
- Real estate investment trusts; and
- Other business entities classified as associations under Title 18 Cal. Code Reg. Sections 23038(b)-1 through 23038(b)-3.

## B Tax Rate and Minimum Franchise Tax

### Tax rate

The tax rate for S corporations that are subject to either the franchise or the income tax is 1.5%. The tax rate for built-in gains, and excess net passive income is 8.84%.

Financial S corporations are required to use a rate of 2% above the S corporation rate (currently 1.5% or 8.84% for built-in gains and excess net passive income). See R&TC Section 23186(f).

### Minimum franchise tax

All S corporations subject to the corporation franchise tax and any S corporation "qualified" to do business in California must file Form 100S and pay at least the minimum franchise tax as required by law. The minimum franchise tax is \$800 and must be paid whether the S corporation is active, inactive,

operates at a loss, or files a return for a short period of less than 12 months.

For corporations that incorporate or qualify through the California SOS to do business in California on or after January 1, 2000, the prepayment of the minimum franchise tax to the SOS is no longer required. For the first taxable year, the corporation will compute its tax liability by multiplying its state net income by the appropriate tax rate and will not be subject to minimum franchise tax. The corporation will become subject to minimum franchise tax beginning in its second taxable year. This does not apply to qualified Subchapter S subsidiaries or corporations that are not qualified by the California SOS, or reorganize solely to avoid payment of the minimum franchise tax.

There is no minimum franchise tax for:

- Corporations that derive income from sources within California but are subject only to income tax because they are not "doing business" in California, and are not incorporated or qualified under the laws of California (get FTB Pub. 1050, FTB Pub. 1060, or FTB Pub. 1063 for more information regarding "doing business");
- Credit unions;
- Exempt homeowners' associations;
- Exempt political organizations;
- Qualified non-profit farm cooperative associations;
- Exempt organizations; and
- Corporations that are not incorporated under the laws of California; whose sole activities in California are engaging in convention and trade show activities for seven or fewer days during the income year; and do not derive more than \$10,000 of gross income reportable to California during the taxable year. These S corporations are not "doing business" in California. Get FTB Pub. 1060 for more information.

### Alternative minimum tax

S corporations are not subject to the alternative minimum tax.

## C Elections and Terminations

### Elections

Corporations that elect federal S corporation status and have a California filing requirement, are deemed to have made a California S election effective on the same date as the federal S election. These corporations must report the federal S election to the FTB using form FTB 3560, S Corporation Election or Termination/Revocation.

If a federal S corporation wants to be a California C corporation, it must elect such treatment using form FTB 3560. Only corporations incorporated or qualified to do business in California may make this election. Such an election is treated as a revocation of the California S corporation election and will be disregarded if not filed when due. Get form FTB 3560 for information on filing deadlines.

A federal S corporation that previously elected to be a California C corporation may elect to become a California S corporation unless the California S corporation status was terminated within the previous five years. Use form FTB 3560 to make this election.

### Terminations

A corporation may terminate its S corporation status by:

- Revoking the election (federal or state); or
- Ceasing to qualify as an S corporation; or
- Violating the passive investment income restrictions on corporations with earnings and profits.

An S corporation may terminate its S election for California, by revocation, without terminating its federal S election. However, terminating the taxpayer's federal S election simultaneously terminates its California S election.

If the taxpayer terminates its S corporation status, short period returns are required for the S corporation short year and the C corporation short year, if applicable.

During the five years after the termination of the S corporation status, the taxpayer may not make another California S election unless the FTB consents.

For more information about elections and terminations, get form FTB 3560.

## D Accounting Period and Method

The taxable year of the S corporation must not be different from the taxable year used for federal purposes, unless initiated or approved by the FTB (R&TC Section 24632).

A change in accounting method requires consent from the FTB. However, an S corporation that obtains federal approval to change its accounting method, or that is permitted or required by federal law to make a change in its accounting method without prior approval, and does so, is deemed to have the FTB's approval if: (1) the S corporation files a timely Form 100S consistent with the change for the first year the change is effective, and (2) the change is consistent with California law. A copy of federal Form 3115, Application for Change in Accounting Method, and a copy of the federal consent to the change must be attached to Form 100S for the first year the change becomes effective. See FTB Notice 2000-8 for more information. The FTB may modify requested changes if the adjustments would distort income for California purposes.

If the corporation is a bank, savings and loan association, or financial corporation, it cannot use the bad debt reserve method of accounting and elect to be, or continue to be, an S corporation for taxable years beginning on or after January 1, 1997. However, the S corporation status can be maintained or elected if the corporation changes its accounting method from the bad debt reserve

method to the specific write-off method. Get FTB Notice 98-3, for more information.

**Note:** California is not following the automatic consent procedure for a change of accounting method involving previously unclaimed allowable depreciation or amortization of Federal Revenue Procedure 96-31. Get FTB Notice 96-3, for more information.

## E When to File

File Form 100S by the 15th day of the 3rd month after the close of the taxable year unless the return is for a short period as required under R&TC Section 24634. Generally, the due date of a short period return is the same as the due date of the federal short period return. See R&TC Section 18601(c) for the due date of the short period return. Farmer's cooperative associations must file Form 100S by the 15th day of the 9th month after the close of the taxable year.

See General Information O, Dissolution/Withdrawal, and General Information P, Ceasing Business, for information on final returns.

## F Extension of Time to File

If an S corporation cannot file its California tax return by the 15th day of the 3rd month after the close of the taxable year, it may file on or before the 15th day of the 10th month, without filing a written request for an extension. If the S corporation is suspended on the original due date, the automatic extension will not apply.

An automatic extension does not extend the time for payment. The full amount of tax must be paid by the original due date of Form 100S. If there is an unpaid tax liability on the original due date, get form FTB 3539, Payment Voucher for Automatic Extension for Corporations and Exempt Organizations, (included in this booklet) and send it with the payment by the original due date of the Form 100S.

**Note:** If the corporation must pay its tax liability using Electronic Funds Transfer (EFT), all taxes due **must** be remitted by EFT to avoid penalties. Do not send form FTB 3539.

## G Electronic Funds Transfer (EFT)

Corporations that meet certain requirements must remit all of their payments through EFT rather than by paper checks or money orders to avoid penalties. Once a corporation remits an estimated tax payment or extension payment in excess of \$20,000 or has a total tax liability in excess of \$80,000, the FTB will notify the corporation that all future payments must be made by EFT. Those that wish to participate on a voluntary basis may do so. For more information, go to our Website at [www.ftb.ca.gov](http://www.ftb.ca.gov), call the FTB EFT Help Desk at (916) 845-4025, or get FTB Pub. 3817, Electronic Funds Transfer Program Information Guide.

## H Where to File

If tax is due, and the corporation is not required to use EFT, make the check or money order payable to the Franchise Tax Board. Write the California corporation number and "2001 Form 100S" on the check or money order. Mail the return and payment to:

FRANCHISE TAX BOARD  
PO BOX 942857  
SACRAMENTO CA 94257-0501

Mail all other returns, including those with payment by EFT to:

FRANCHISE TAX BOARD  
PO BOX 942857  
SACRAMENTO CA 94257-0500

### Private Delivery Services

California law conforms to federal law regarding the use of certain designated private delivery services to meet the "timely mailing as timely filing/paying" rule for tax returns and payments. See federal Form 1120S, U.S. Income Tax Return for an S Corporation, for a list of designated delivery services. If a private delivery service is used, address the return to:

FRANCHISE TAX BOARD  
SACRAMENTO CA 95827

**Caution:** Private delivery services cannot deliver items to PO boxes. If using one of these services to mail any item to the FTB, **DO NOT** use an FTB PO box.

### Private Mailbox (PMB) Number

If the S corporation leases a PMB from a private business rather than a PO box from the United States Postal Service, include the box number in the field labeled "PMB no." in the address area.

## I Net Income Computation

The computation of net income from trade and business activities generally follows the determination of taxable income as provided in the IRC. However, there are differences that must be taken into account when completing Form 100S. There are two ways to complete Form 100S, the federal reconciliation method or the California computation method.

### 1. Federal reconciliation method

- a. Attach a copy of federal Form 1120S, page 1, U.S. Income Tax Return for an S Corporation, and all pertinent supporting schedules, or transfer the information from federal Form 1120S, page 1, to Form 100S, Side 2, Schedule F and attach all pertinent supporting schedules;
- b. Enter the amount of federal ordinary income (loss) from trade or business activities before any net operating loss (NOL) on Form 100S, Side 1, line 1; and
- c. Enter the state adjustments (including any adjustments necessary to report items not included in ordinary trade or business income or loss) on line 2 through line 14, to arrive at net income after state adjustments, Side 1, line 15.

See the specific line instructions for more information.

## 2. Schedule F – California computation method

If the S corporation has no federal filing requirement, or if the S corporation maintains separate records for state purposes, complete Form 100S, Side 2, Schedule F, Computation of Trade or Business Income, to determine state ordinary income. If ordinary income is computed under California laws, generally no state adjustments are necessary. Transfer the amount from Schedule F, line 22, to Form 100S, Side 1, line 1. Complete Form 100S, Side 1, line 1 through line 14, only if applicable.

**Note:** Regardless of the net income computation method used, the corporation must attach any form, schedule, or supporting document referred to on the return, and schedules or forms filed with FTB.

### Substitution of federal schedules

S corporations may not substitute federal schedules for California schedules.

## J Built-in Gains

For California purposes, when a C corporation elects to be an S corporation, certain items of gain or loss recognized in S corporation years are subject to the C corporation 8.84% tax rate instead of the S corporation 1.5% tax rate (financial S corporations add 2%).

### Built-in gains under current IRC Section 1374

For those S corporations that made the initial federal S election after December 31, 1986, certain income items reported by the S corporation are taxed at 8.84% (or the financial C corporation tax rate). This provision applies for a period of ten years following the C corporation's election to become an S corporation. The amount of built-in gain that is taxed at 8.84% (or the financial C corporation tax rate) is the excess of recognized built-in gains over recognized built-in losses, limited by taxable income as determined under IRC Section 1374(d)(2)(A). The following items are treated as built-in gains subject to this tax:

- Accounts receivable of cash basis taxpayers from C corporation years;
- Long-term contract deferred income from C corporation years;
- Deferred income from installment sales made in C corporation years;
- Recapture of depreciation from C corporation years;
- Income from unreplaced LIFO inventory from C corporation years; and
- Any other income item that is attributable to C corporation years.

(These are just a few of the examples. This list is not intended to be all inclusive.)

**Note:** For purposes of current IRC Section 1374, the effective date of any California S election made in 1987 and 1988

reverts back to the date of the federal S election if the corporation was previously a federal S corporation.

### Transitional rules under IRC Section 1374

The Tax Reform Act of 1986, Act Section 633(d)(8), to which California conforms, provides special transitional relief from the built-in gains tax for qualified S corporations. A "qualified S corporation" is any S corporation that has an applicable value of \$10 million or less on August 1, 1986, all times thereafter and before the corporation is completely liquidated, and is more than 50% owned by ten or fewer qualified persons. A "qualified person" is an individual, an estate, or a trust that is described in IRC Section 1361(c)(2)(A)(ii) or (iii).

This transitional relief applies to qualified corporations that elected S corporation status after December 31, 1986, and before January 1, 1989. The relief is not available to an otherwise qualified S corporation in the case of the sale or distribution of capital assets held six months or less or in the case of the sale or distribution of assets which results in ordinary income (loss).

## K Estimated Tax

California law has conformed to the federal expanded annualization periods for the computation of estimate payments.

For taxable years beginning on or after January 1, 1998, the applicable percentage for estimate basis is 100%.

Every S corporation, must pay estimated tax using Form 100-ES, Corporation Estimated Tax. Estimated tax is generally due and payable in four installments:

- The 1st payment is due on the 15th day of the 4th month of the taxable year (note that this payment may not be less than the minimum franchise tax, plus QSub annual tax, if applicable); and
- The 2nd, 3rd, and 4th installments are due and payable on the 15th day of the 6th, 9th, and 12th months, respectively, of the taxable year.

**Caution:** If no amount is due, **DO NOT** mail Form 100-ES.

Get the instructions for Form 100-ES for more information.

**Note:** If the corporation must pay its tax liability using EFT, all estimate payments due **must** be remitted by EFT to avoid penalties.

## L Commencing S Corporations

For taxable years beginning on or after January 1, 2000, no minimum tax is required for the first taxable year if the corporation incorporated or registered through the California SOS. See General Information B, Minimum Franchise Tax, for more information.

Get FTB Pub. 1060, Guide for Corporations Starting Business in California, for more information.

## M Penalties

### Failure to file a timely return

Any S corporation that fails to file a Form 100S on or before the due date is assessed a penalty. The penalty is 5% of the tax due, after any timely payments or credits, for each month of delinquency, not to exceed 25% of the unpaid tax. If the S corporation does not file its return by the extended due date, the automatic extension will not apply and the late filing penalty will be assessed from the original due date of the return.

See R&TC Section 19131, for more information.

### Failure to pay total tax by the due date

Any S corporation that fails to pay the total tax shown on Form 100S by the original due date is assessed a penalty. The penalty is 5% of the unpaid tax, plus 0.5% for each month, or part of the month (not to exceed 40 months) the tax remains unpaid. This penalty may not exceed 25% of the unpaid tax.

See R&TC Section 19132, for more information.

**Note:** If an S corporation is subject to both the penalty for failure to file a timely return and the penalty for failure to pay the total tax by the due date, a combination of the two penalties may be imposed, but the total will not exceed 25% of the unpaid tax.

### Underpayment of estimated tax

Any S corporation that fails to pay, pays late, or underpays an installment of estimated tax is assessed a penalty. The penalty is a percentage of the underpayment for the underpayment period.

Get form FTB 5806, Underpayment of Estimated Tax by Corporations, to determine both the amount of underpayment and the amount of penalty.

See R&TC Section 19142, 19144, 19145, 19147, 19148, 19149, 19150, 19151, and 19161 for more information.

**Note:** If the S corporation uses Exception B or Exception C to compute or eliminate any of the four installments, form FTB 5806 must be attached to the **front of** Form 100S and the box on Side 1, line 40, should be checked.

### EFT Penalty

If the S corporation must pay its tax liability using EFT, all payments must be remitted by EFT to avoid penalties. The EFT penalty is 10% of the amount not paid by EFT. See R&TC Section 19011 and General Information G, Electronic Funds Transfer (EFT), for more information.

### Information reporting penalties

For taxable years beginning on or after January 1, 1997, U.S. taxpayers that have an ownership interest in (directly or indirectly) a foreign corporation and were required to file

federal Form(s) 5471, Information Return of U.S. Persons With Respect to Certain Foreign Corporations, with the federal return, must attach a copy(s) to the California return. The penalty for failure to include a copy of federal Form(s) 5471, as required, is \$1,000 per required form for each year the failure occurs. The penalty applies for taxable years beginning on or after January 1, 1998. The penalty will not be assessed if the taxpayer provides a copy of the form(s) within 90 days of request from the FTB and the taxpayer agrees to attach a copy(s) of Form 5471 to all returns filed for subsequent years.

Certain domestic corporations that are 25% or more foreign-owned and foreign corporations engaged in a U.S. trade or business must attach federal Form(s) 5472, Information Return of a 25% Foreign-Owned U.S. Corporation or a Foreign Corporation Engaged in a U.S. Trade or Business, to Form 100S. The penalty for failing to include Form(s) 5472, as required, is \$10,000 per required form for each year the failure occurs. See R&TC Section 19141.5 for more information.

If the S corporation does not file its Form 100S by the due date or extended due date, whichever is later, copies of federal Form(s) 5472 must still be filed on time or the penalty will be imposed. Attach a cover letter to the copies indicating the taxpayer's name, California corporation number, and taxable year. Mail to the same address used for returns without payments. See General Information H, Where to File. When the S corporation files Form 100S, also attach copies of the federal Form(s) 5472.

#### **Record maintenance penalties**

The penalty for failure to maintain certain records is \$10,000 for each taxable year for which the failure applies. In addition, if the failure continues for more than 90 days after the FTB notifies the S corporation of the failure, in general, a penalty of \$10,000 may be assessed for each additional 30-day period of continued failure. For taxable years beginning on or after January 1, 1996, there is no maximum amount of penalty that may be charged.

See "Important Information" on page 3 for a discussion of the records required to be maintained. See R&TC Section 19141.6 and the related regulations for more information.

#### **Accuracy and fraud related penalties**

California conforms to IRC Sections 6662 through 6665 that authorize the imposition of an accuracy-related penalty equal to 20% of the related underpayment and the imposition of a fraud penalty equal to 75% of the related underpayment. See R&TC Section 19164 for more information.

#### **Secretary of State penalty**

The California Corporations Code requires the FTB to assess a penalty for failure to file an annual statement of corporate officers with the California SOS. See R&TC Section 19141.

For more information, contact the:

CALIFORNIA SECRETARY OF STATE  
PO BOX 944230  
SACRAMENTO CA 94244-2300  
Telephone: (916) 657-3537

#### **Other penalties**

Other penalties may be imposed for a check or EFT returned for insufficient funds, non-U.S. foreign corporations operating while forfeited or without qualifying to do business in California, and domestic corporations operating while suspended in California. See R&TC Sections 19134 and 19135 for more information.

## **N Interest**

Interest is due and payable on any tax due if not paid by the original due date of Form 100S. Interest is also due on some penalties. The automatic extension of time to file Form 100S does not stop interest from accruing. California follows federal rules for the calculation of interest. Get FTB Pub. 1138, Refund/Billing Information, for more information.

## **O Dissolution/Withdrawal**

The franchise tax for the period in which the S corporation formally dissolves or withdraws is measured by the income of the year in which it ceased doing business in California, unless such income has already been taxed at the rate prescribed for the taxable year of dissolution or withdrawal.

An S corporation that is a successor to a corporation that commenced doing business in California before January 1, 1972, is allowed a credit that may be refunded in the year of dissolution or withdrawal. The amount of the refundable credit is the difference between the minimum franchise tax for the corporation's first full 12 months of doing business and the total tax paid for the same period.

To claim this credit, enter the amount on Form 100S, Side 1, line 34. To the left of line 34, write "Dissolving/ Withdrawing."

The return for the final taxable period is due on or before the 15th day of the 3rd full month after the month during which the S corporation formally dissolved or withdrew.

Get FTB Pub. 1149, Terminating a Corporation, for more information.

To get samples and/or forms for filing a dissolution, surrender, or merger agreement, address your request to:

ATTN: LEGAL REVIEW  
CALIFORNIA SECRETARY OF STATE  
1500 11TH ST 3RD FLOOR  
SACRAMENTO CA 95814-5701  
Telephone: (916) 657-5448

## **P Ceasing Business**

A special tax computation is necessary when an S corporation ceases to do business in California. For taxable years beginning after December 31, 1972 and before January 1,

2000, the tax for the final year in which the S corporation does business in California is:

- Measured by or according to its net income for the next preceding taxable year; PLUS
- Its net income for the taxable year during which the corporation ceased doing business.

In any event, the tax for any taxable year shall not be less than the minimum tax.

For taxable years beginning on or after January 1, 2000 (other than the first taxable year beginning on or after that date), the tax for the final year in which the S corporation does business in California is:

- Measured by or according to its net income for the taxable year during which the corporation ceased doing business.

In any event, the tax for any taxable year shall not be less than the minimum tax.

For more information, see R&TC Section 23151.1.

The unreported income on installment obligations, the distribution of notes, and the distribution of corporate assets (land, buildings) at a gain must be included in income in the year of cessation. There is no federal law counterpart regarding this issue.

For more information, see R&TC Sections 24672 and 24451.

**Note:** FTB will complete the final year or special tax computation approximately one year after dissolution/cessation of business.

Generally, the S corporation will remain subject to the minimum franchise tax for each year it is in existence until a decree of dissolution is made and entered by the California SOS. See General Information O, Dissolution/Withdrawal, and R&TC Sections 23331 through 23335 for more information.

## **Q Suspension/Forfeiture**

If an S corporation fails to file Form 100S and/or fails to pay any tax, penalty, or interest due, its powers, rights, and privileges may be suspended (in the case of a domestic S corporation) or forfeited (in the case of a foreign S corporation).

S corporations that operate while suspended or forfeited are subject to a \$2,000 penalty per taxable year, which is in addition to any tax, penalties, and interest already accrued. Also, any contracts entered into during suspension or forfeiture are voidable at the request of any party to the contract other than the suspended or forfeited corporation.

Such contracts will remain voidable and unenforceable unless the S corporation applies for relief from contract voidability and the FTB grants relief.

See R&TC Sections 19135, 19719, 23301, 23305.1, and 23305.2 for more information.

## R Apportionment of Income

S corporations with business income attributable to sources both within and outside of California are required to apportion such income. To calculate the apportionment percentage, use Schedule R, Apportionment and Allocation of Income. Be sure to answer Question P on Form 100S, Side 2.

**Note:** A corporation that has made a valid election to be treated as an S corporation is generally not included in a combined report. However, in some cases, the FTB may use combined reporting methods to clearly reflect income of an S corporation (R&TC Section 23801(d)(1)).

## S Excess Net Passive Investment Income

California conforms to IRC Section 1375 for taxable years beginning on or after January 1, 1987. If an S corporation does not have excess net passive investment income for federal purposes, then the S corporation will not have excess net passive investment income for California purposes.

If at the close of the taxable year, an S corporation has undistributed earnings and profits (defined in IRC Section 1362(d)(3)) from previous years as a C corporation and has passive investment income that represents more than 25% of total gross receipts, then the S corporation may be subject to a tax on the excess net passive investment income (R&TC Section 23811).

If an S corporation has an 80% or greater ownership stake in a C corporation, dividends received from that C corporation are not treated as passive investment income, for purposes of IRC Sections 1362 and 1375, if the dividends are attributable to the earnings and profits of the C corporation derived from the active conduct of a trade or business.

## T Water's-Edge Reporting

For taxable years beginning on or after January 1, 2000, C corporations filing on a water's-edge basis are required to use Form 100W, California Corporation Franchise or Income Tax Return – Water's-Edge Filers, to file their California tax return.

S corporations filing on water's-edge basis should continue to file Form 100S.

For taxable years beginning on or after January 1, 1988, taxpayers may elect to compute income attributable to California on the basis of a water's-edge election, affiliated foreign corporations are excluded from the combined report.

To make the water's-edge election, an S corporation should enter into a contract with the FTB by filing Form 100-WE, Water's-Edge Contract. For the election to be valid for any taxable year, Form 100-WE should be signed and attached to the original Form 100S. A copy should be attached to all subsequent returns filed during the contract period.

In consideration for being allowed to file on a water's-edge basis, the S corporation must, among other things:

- File returns on a water's-edge basis for a period of 84 months;
- Agree to business income treatment of dividends received from certain corporations; and
- Consent to the taking of certain depositions and the acceptance of subpoenas duces tecum requiring the reasonable production of documents.

Get Form 100W, Water's-Edge Booklet, for more information.

## U Amended Return

To correct or change a previously filed Form 100S, file the most current Form 100X, Amended Corporation Franchise or Income Tax Return. Using the incorrect form may delay processing of the amended return. File Form 100X within six months after the corporation filed an amended federal return or after the final federal determination, if the Internal Revenue Service (IRS) examined and changed the corporation's federal return.

## V Information Returns

Every S corporation engaged in a trade or business and making or receiving certain payments in the course of the trade or business is required to file information returns which report the amount of these payments.

Payments that must be reported include, but are not limited to, compensation for services not subject to withholding, commissions, fees, prizes and awards, payments to independent contractors, rents, royalties and pensions exceeding \$600 annually, interest and dividends exceeding \$10 annually, and cash payments over \$10,000 received in a trade or business. Payments of any amount by a broker or barter exchange must also be reported.

S corporations must report payments made to California residents by providing copies of federal Form 1099. Reports must be made for the calendar year and are due to the IRS no later than February 28th of the year following payment. S corporations must also submit federal Form 8300, Report of Cash Payments Over \$10,000 Received in a Trade or Business, within 15 days after the date of the transaction.

S corporations must report interest paid on municipal bonds held by California taxpayers and issued by a state other than California, or a municipality other than a California municipality. Entities paying interest to California residents on these types of bonds are required to report interest payments aggregating \$10 or more and paid after January 1, 2001. Information returns are due June 1, 2002. Get form FTB 4800, Federally Tax Exempt Non-California Bond Interest and Interest-Dividend Payment Information, for more information.

California conforms to the information reporting requirements of IRC Section 6045(f) for certain payments made to attorneys. If the S corporation has complied with the requirements for federal purposes, the S corporation will be treated as having complied with the requirements for California purposes and no penalty will be imposed.

California conforms to the information reporting requirements imposed under IRC Sections 6038, 6038A, and 6038B. Any information returns required to be filed for federal purposes under these IRC sections are also required to be filed for California purposes. Required federal information returns should be attached to the Form 100S when filed. If these information returns are not provided, penalties may be imposed under R&TC Sections 19141.2 and 19141.5.

Mail all information returns required to be filed separate from the tax return to:

FRANCHISE TAX BOARD  
PO BOX 942857  
SACRAMENTO CA 94257-0500

## W Preparer Tax Identification Number

Tax preparers have the option of providing their individual Social Security Number (SSN) or Preparer Tax Identification Number (PTIN) on returns they prepare. Preparers who want a PTIN must complete and submit federal Form W-7P, Application for Preparer Tax Identification Number, to the IRS.

## X Net Operating Loss (NOL)

Carryover periods varying from 5 to 15 years and carryover deductions varying from 50% to 100% are allowed for NOLs sustained by qualified corporations.

For taxable years beginning on or after January 1, 2000, the NOL carryover deduction percentage and periods have been changed. See "Important Information" on page 3.

R&TC Sections 24416 through 24416.7 and 25108 provide for NOL carryovers incurred in the conduct of a trade or business.

R&TC Section 24347.5 provides special treatment for the carryover of disaster losses incurred in an area designated by the President of the United States or the Governor of California as a disaster area. Losses taken into account under the disaster provisions may not be included in computing regular NOL deductions.

For more information get form FTB 3805Q, Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations — Corporations (included in this booklet); form FTB 3805D, Net Operating Loss (NOL) Computation and Limitation — Pierce's Disease; form FTB 3805Z, Enterprise Zone Business Booklet; form FTB 3806, Los Angeles Revitalization Zone Booklet; form FTB 3807, Local Agency Military Base

Recovery Area Booklet; or form FTB 3809, Targeted Tax Area Business Booklet.

## Y At-Risk Rules

California S corporations are subject to IRC Section 465 relating to the at-risk rules. For more information, see federal Form 6198, At-Risk Limitations. Losses from passive activities are first subject to the at-risk rules and then to the passive activity rules.

## Z Passive Activity Loss Limitation

California S corporations generally follow IRC Section 469 and the regulations thereunder that allow losses from passive activities to be applied only against income from passive activities.

California differs from federal law in that rental real estate activities of taxpayers engaged in a real property business are still treated as a passive activity.

California law also differs from federal law in that the passive activity loss rules are applied at both the S corporation level and at the shareholder level. The passive activity loss rules must be applied in determining the net income of the S corporation that will be taxed using the 1.5% tax rate. Subsequent to the income and deductions flowing through to the shareholders, the rules are again applied in determining the net income of the shareholder. Treatment at the shareholder level is the same as the federal treatment prior to January 1, 1994.

The passive activity loss rules apply to the S corporation as if it were an individual (i.e., losses from passive activities may not be used to offset other income, except for \$25,000 in losses from rental real estate). However, when determining whether the S corporation materially participates in the activity, the material participation rules that apply to a "closely held C corporation" should be applied to the S corporation. For more information, see IRC Section 469(h)(4).

S corporations must use form FTB 3801, Passive Activity Loss Limitations, to compute the allowable net loss from passive activities.

## AA Passive Activity Credits

S corporation credits subject to the passive activity credit limitation rules include:

- Research credit;
- Low-income housing credit;
- Targeted jobs credit carryover; and
- Clinical testing expense credit carryover.

Get form FTB 3801-CR, Passive Activity Credit Limitations, for more information.

## BB Tax Credits

If a C corporation had unused credit carryovers when it elected S corporation status, the carryovers were reduced to 1/3 and transferred to the S corporation. The remaining 2/3 were disregarded. The allowable carryovers

may be used to offset the 1.5% tax on net income in accordance with the respective carryover rules. These C corporation carryovers may not be passed through to shareholders. Refer to Schedule C (100S), S Corporation Tax Credits, included in this booklet.

S corporations may generate credits from both the Corporation Tax Law and the Personal Income Tax Law. Follow the guidelines below:

- If a credit listed on page 14 is allowed only under the Corporation Tax Law, 1/3 of the credit may be used to offset the S corporation tax or may be carried over, if allowed. The remaining 2/3 must be disregarded and may not be carried over. No part of the credit may be passed through to the shareholders.
- If the credit is allowed only under Personal Income Tax Law, the full credit may be passed through to the shareholders. No part of the credit may be used by the S corporation to offset the S corporation tax or to be carried over.
- If a credit is allowed under both the Corporation Tax Law and Personal Income Tax Law, the S corporation may use 1/3 of the credit to offset the S corporation tax or it may be carried over, if allowed. The remaining 2/3 must be disregarded and may not be carried over. The full amount of the credit, as calculated under the Personal Income Tax Law, may also be passed through to the shareholders.

Credits and credit carryovers may not reduce the minimum franchise tax, the QSub annual tax(es), built-in gains tax, excess net passive income tax, credit recaptures, the increase in tax imposed for the deferral of installment sale income, or an installment of LIFO recapture tax.

## CC Group Nonresident Shareholder Return

Nonresident individual shareholders of an S corporation doing business in California may elect to file a group nonresident return on Long Form 540NR, California Nonresident or Part-Year Resident Income Tax Return. Get FTB Pub. 1067, Guidelines for Filing a Group Form 540NR, for more information.

## DD Qualified Subchapter S Subsidiary (QSub)

California has conformed to the sections of the IRC that allow an S corporation to own a QSub. A QSub is a domestic corporation that is not an ineligible corporation (i.e., it must be eligible to be an S corporation as defined by IRC Section 1361(b)(2)). In addition, 100% of the stock of the subsidiary must be held by the S corporation parent and the parent must elect to treat the subsidiary as a QSub. A QSub is not treated as a separate entity and all assets, liabilities, and items of income, deduction, and credit of the QSub are treated

as belonging to the parent S corporation. The activities of the QSub are treated as activities of the parent S corporation.

An election made by the parent S corporation under IRC Section 1361(b)(3) to treat the corporation as a QSub for federal purposes is treated as a binding election for California purposes. A separate election is not filed for California.

The federal election is made on federal Form 966, Corporate Dissolution or Liquidation. For information on making the election, get IRS Notice 97-4, 1997-1 C.B. 351. California requires that an S corporation parent attach a copy of the Form 966 for each QSub doing business or qualified to do business in California to the return for the taxable year during which the QSub election was made. California follows the federal transitional relief procedures for perfecting a QSub election.

A QSub is subject to an \$800 annual tax which is paid by the S corporation parent. The QSub annual tax is due and payable when the S corporation's first estimated tax payment is due. If the QSub is acquired, or a QSub election is made during the taxable year, the QSub annual tax is due with the S corporation's next estimated tax payment after the date of the QSub election or acquisition. The QSub annual tax is subject to the estimated tax rules and penalties.

An S corporation that owns a QSub does not file a combined return. Instead, the QSub is disregarded, and the activities, assets, liabilities, income, deductions, and credits of the QSub are considered to be the assets, liabilities, income, and credits of the S corporation. If the QSub is not unitary with the S corporation, then it is treated as a separate division and separate computations must be made to compute business income and apportionment factors for the QSub and the S corporation, and to apportion to California the business income of each.

An S corporation parent must complete the Schedule QS, Qualified Subchapter S Subsidiary Information Worksheet on page 35 and attach it to the Form 100S for each taxable year in which a QSub is acquired or a QSub election is made.

## Specific Line Instructions

Filing Form 100S without errors will expedite processing. Before mailing Form 100S, make sure entries have been made for:

- California corporation number (seven digits);
- Federal employer identification number (FEIN) (nine digits); and
- Corporation name and address (include PMB no, if applicable).

File the 2001 Form 100S for calendar year 2001 and fiscal years that begin in 2001.

Enter taxable year beginning and ending dates **only** if the return is for a short year or a fiscal

year. If the S corporation reports its income using a calendar year, leave blank. If the return is filed for a short period (less than 12 months), write "short year" in red in the top margin on Form 100S, Side 1. Convert all foreign monetary amounts to U. S. dollars.

**Note:** The 2001 Form 100S may also be used if:

- The corporation has a taxable year of less than 12 months that begins and ends in 2002; **and**
- The 2002 Form 100S is not available at the time the corporation is required to file its return. The S corporation must show its 2002 taxable year on the 2001 Form 100S and incorporate any tax law changes that are effective for taxable years beginning after December 31, 2001.

**Caution:** California law is different from federal law. California taxes S corporations under Chapter 2 (commencing with Section 23101) or Chapter 3 (commencing with Section 23501) of the Corporation Tax Law.

## Questions A through Q

Answer all applicable questions. Be sure to answer Questions E through Q on Side 2. Note the following instructions when answering:

### Question A – Final Return

Get FTB Pub 1149, Terminating a Corporation, for more information.

### Question B – Transfer or acquisition of voting stock

All S corporations **must** answer Question B. If the answer is "Yes," a "Statement of Change in Control and Ownership of Legal Entities" (BOE-100-B) must be filed with the State Board of Equalization, or substantial penalties may result. Forms and information may be obtained from the Board of Equalization at (800) 400-7115.

Answer "Yes" to Question B if:

- The percentage of outstanding voting shares of this S corporation or its subsidiary(ies) owned by **one** person or **one** entity cumulatively surpassed 50% during this year; or
- The total percentage of voting shares transferred to **one** irrevocable trust cumulatively surpassed 50% this year; or
- One or more irrevocable proxies transferred voting rights to more than 50% of the outstanding shares to **one** person or **one** entity during this year; or
- This S corporation's cumulative ownership or control of the stock or other ownership interest in any legal entity surpassed 50% during this year; or
- Cumulatively more than 50% of the total outstanding shares of this S corporation have been transferred or changed ownership or control this year.

R&TC Section 64(e) requires this information for use by the California State Board of Equalization.

### Question C – Principal business activity (PBA) code

All S corporations **must** answer Question C.

Include the six digit PBA code from the chart found on page 44 through page 46 of this booklet.

The code should be the number for the specific industry group from which the greatest percentage of California "total receipts" is derived. "Total receipts" means gross receipts plus all other income. The California code number may be different from the federal code number.

If, as its principal business activity, the corporation: (1) purchases raw material; (2) subcontracts out for labor to make a finished product from the raw materials; and (3) retains title to the goods, the corporation is considered to be a manufacturer and must enter one of the codes under "Manufacturing." Also, write in the business activity and principal product or service on the lines provided.

### Question E – Does this return include Qualified Subchapter S Subsidiaries (QSubs)?

Answer "Yes" if the S corporation owns a QSub. Refer to the instructions for line 22 and line 32 to report the QSub annual tax. Be sure to complete Schedule QS (QSub Information Worksheet) on page 35 of this booklet and attach the Worksheet to Form 100S when filed.

## Line 1 through Line 41

### Line 1 – Ordinary income (loss) from trade or business

S corporations using federal reconciliation method to figure net income (see General Information I, Net Income Computation) must:

- Transfer the amount from federal Form 1120S, line 21 to Form 100S, Side 1, line 1 and attach a copy of the federal return and all pertinent supporting schedules; or copy the information from federal Form 1120S, page 1, onto Form 100S, Side 2, Schedule F and transfer the amount from Schedule F, line 22, to Form 100S, Side 1, line 1.
- Then, complete Form 100S, Side 1, line 2 through line 14, State Adjustments.

S corporations using the California computation to figure ordinary income (see General Information I, Net Income Computation) must transfer the amount from Form 100S, Side 2, Schedule F, line 22, to line 1. Complete Form 100S, Side 1, line 2 through line 14, only if applicable.

### Line 2 through Line 14 – State adjustments

To figure net income for California purposes, corporations using the federal reconciliation method (see General Information I, Net Income Computation) must enter California adjustments to the federal net income on line 2 through line 14. If a specific line for the adjustment is not on Form 100S, enter the

adjustment on line 7, Other additions, or line 13, Other deductions, and attach a schedule.

### Line 2 – Taxes not deductible

California law does not permit a deduction for California corporation franchise or income taxes or any other taxes on, according to, or measured by income or profits. Add these taxes to income on line 2. Examples of these taxes are California's minimum franchise tax, the 1.5% income or franchise tax, and the environmental taxes imposed by IRC Section 59A.

### Line 3 – Interest on government obligations

S corporations subject to the California franchise tax must report interest received on government obligations even though it may be exempt from state or federal individual income tax. This interest must be added to income on line 3. See line 13 instructions for S corporations subject to the California corporation income tax.

### Line 4 – Net capital gain

Enter on this line any net capital gain subject to the 1.5% tax rate (3.5% for financial S corporations) shown on Schedule D (100S), Section B, and any gains subject to the 8.84% tax rate (10.84% for financial S corporations) shown on Schedule D (100S), Section A, line 3a and line 6a.

### Line 5 – Depreciation and amortization

Depreciation for S corporations follows the depreciation rules provided under California Personal Income Tax Law. Unlike other corporations, an S corporation is allowed to compute depreciation using the Modified Accelerated Cost Recovery System (MACRS). Complete Schedule B (100S) for assets subject to depreciation and for assets subject to amortization. Enter the total of Schedule B, Part III, on Form 100S, Side 1, line 5.

### Line 6 – Portfolio income

Enter on this line net portfolio income not included in line 1 but that must be included in the S corporation's net income for computing the 1.5% tax. Include interest, dividends, and royalties. Do not include any passive activity amounts on this line. Instead, include passive activity amounts on line 7 or line 13.

### Line 7 – Other additions

Section 24425 disallows expenses allocable to income, which is not in the measure of the Franchise Tax or Income Tax. Add back such deductions on this line.

Also, include on this line other items not added on any other line to arrive at California net income. Attach a schedule that clearly shows how each item was computed and explain the basis for the adjustment.

If a federal contribution deduction was taken in arriving at the amount entered on line 1, include that amount in the computation of line 7. See line 11, Contributions.

Enter any passive activity income on line 7.

**California ordinary net gain or loss**

Before entering the amount from Schedule D-1, line 18, determine whether the gain is subject to built-in gains tax. If the gain is subject to built-in gains tax, enter the amount on Schedule D (100S), Part IV so the built-in gains tax can be computed, and enter the difference between the amount on Schedule D-1, line 18 and the amount subject to built-in gains tax on Form 100S, Side 1, line 7. See General Information O, Dissolution/Withdrawal.

**Note:** Business expense deductions are not allowed with respect to payments to a club that restricts membership or the use of its services or facilities on the basis of age, sex, race, religion, color, ancestry, or national origin. "Club" means a club as defined in the Business and Professions Code, Div. 9, Ch. 3, Art. 4, beginning with Section 23425. Add back such deductions on this line.

**Line 9 and Line 10 – Dividends**

See instructions for Schedule H (100S), Dividend Income Deduction, included in this booklet.

**Line 11 – Contributions**

The contribution deduction for California corporations is limited to the adjusted basis of the assets being contributed.

For taxable years beginning on or after January 1, 1996, the contribution deduction is 10% of California net income, without regard to charitable contributions and special deductions (e.g., the deduction for dividends received). The definition of California net income differs from federal taxable income for computing the contribution deduction.

Per IRC Section 170(d)(2), five-year carryover provisions shall apply for excess contributions made during taxable years beginning on or after January 1, 1996.

On a separate worksheet, using the Form 100S format, complete Form 100S, Side 1, line 1 through line 15 (without regard to line 11). If any federal contribution deduction was taken in arriving at the amount entered on Side 1, line 1, enter that amount as an addition on line 7 of the Form 100S formatted worksheet. Enter the adjusted basis of the assets contributed on line 5 of the worksheet below. Then complete the worksheet below to determine the contribution deduction to enter on line 11.

1. Net income after state adjustments from Side 1, line 15 . . . . . \_\_\_\_\_
2. Deduction for dividends received . . . . . \_\_\_\_\_
3. Net income for contribution calculation purposes. Add line 1 and line 2 . . . . . \_\_\_\_\_
4. Allowable contributions. Multiply line 3 by 10% (.10) . . . . . \_\_\_\_\_
5. Enter the amount actually contributed . . . . . \_\_\_\_\_
6. Enter the smaller of line 4 or line 5 here and on Side 1, line 11 \_\_\_\_\_

Get Schedule R, Apportionment and Allocation of Income, to figure the contribution computation for apportioning corporations.

**Line 12 – Enterprise Zone (EZ), Local Agency Military Base Recovery Area (LAMBRA), or Targeted Tax Area (TTA) business expense and/or net interest deduction**

Businesses conducting a trade or business within an EZ, LAMBRA, or TTA may **elect** to treat a portion of the cost of qualified property as a business expense rather than a capital expense. For the year the property is placed in service, the business may deduct a percentage of the cost in that year rather than depreciate it over the life of the asset. For more information, get form FTB 3805Z, form FTB 3807, or form FTB 3809.

Also, a deduction may be claimed on this line for the amount of net interest on loans made to an individual or company doing business inside an EZ. For more information, get form FTB 3805Z.

Be sure to attach form FTB 3805Z, form FTB 3807, or form FTB 3809 if any of these benefits are claimed. If the proper form is not attached, these tax benefits may be disallowed.

**Line 13 – Other deductions**

Include on this line deductions not claimed on any other line. Attach a schedule that clearly shows how each deduction was computed and explain the basis for the deduction.

Include in the computation for line 13 any passive activity loss. Also enter any IRC Section 179 expense from Schedule B (100S), line 5.

For S corporations subject to income (and not franchise) tax, interest received on obligations of the federal government and on obligations of the State of California and its political subdivisions is exempt from income tax. If such interest is reported on line 3, deduct it on this line.

**Federal ordinary net gain or loss**

Enter any federal ordinary net gain or loss from federal Form 4797, Sales of Business Property, line 18, if the amount is included in income on line 1.

**Line 16 – Net income (loss) for state purposes**

If all the S corporation income is derived from California sources, transfer the amount from line 15 to line 16.

If only a portion of income is derived from California sources, complete Schedule R, before entering any amount on line 16. Transfer the amount from Schedule R, line 24, to this line. Be sure to answer "Yes" to Question P on Form 100S, Side 2.

If this line is a net loss, complete and attach the 2001 form FTB 3805Q to Form 100S.

**Line 17 – R&TC Section 23802(e) deduction**

If the S corporation has a tax imposed on excess net passive investment income and built-in gains, a deduction is allowed against

the net income taxed at the 1.5% rate. See the "Excess Net Passive Income and Income Tax Worksheet," included on page 13 to determine if the S corporation is subject to the tax on excess net passive investment income. If a tax is shown on this worksheet, enter the amount of excess net passive income from line 8 of the worksheet on Form 100S, Side 1, line 17.

For purposes of the built-in gains tax, enter the smaller amount of line 11 or line 13 from Schedule D (100S), Section A, Part III or line 20 from Schedule D (100S), Section A, Part IV.

**Line 18 – Net operating loss (NOL) carryover deduction**

The NOL deduction is the amount of the NOL carryover from **prior** years that may be deducted from income in this taxable year. However, the loss may not reduce the S corporation's current year income below zero. Any excess loss must be carried forward.

If line 16 less line 17 is a positive amount, enter the NOL carryover (but not more than line 16 less line 17) from the S corporation's **2001** form FTB 3805Q, Part III, line 3 on Form 100S, Side 1, line 18. Attach a copy of the **2001** form FTB 3805Q to Form 100S. If the full amount of the NOL carryover is not deducted this year, complete and attach a 2001 form FTB 3805Q showing the computation of the NOL carryover to future years.

If line 16 less line 17 is a negative amount, enter -0- on line 18 and see form FTB 3805Q instructions for the computation of the NOL carryover to future years.

No NOL carryover arising from a year in which an S corporation was a C corporation may be applied against the 1.5% tax. See IRC Section 1371(b)(1) and R&TC Section 23802(d). However, if the corporation terminates its S election, thus becoming a C corporation, then the prior year NOL carryover may be used to the extent it has not expired.

**Note:** NOL carryovers arising from a year in which the S corporation was a C corporation may be used in computing the tax on built-in gains.

**Line 19 – Pierce's disease, EZ, LARZ, TTA, or LAMBRA NOL carryover deduction**

An NOL generated by a farming business due to Pierce's disease or a business that operates (operated) or invests (invested) within an EZ, the former LARZ, the TTA, or a LAMBRA receives special tax treatment. The loss may not reduce the corporation's current year income below zero. Any excess loss must be carried forward. Compute the corporation's Pierce's disease, EZ, TTA, or LAMBRA NOL using form FTB 3805D, form FTB 3805Z, form FTB 3809, or form FTB 3807.

Enter the Pierce's disease, EZ, TTA, LARZ, or LAMBRA NOL carryover deduction from the corporation's form FTB 3805D, form FTB 3805Z; form FTB 3809; form FTB 3807; or form FTB 3806, on Form 100S, line 21. Attach

a copy of the form FTB 3805D, form FTB 3805Z; form FTB 3809; form FTB 3807; or form FTB 3806 to Form 100S.

**Line 20 – Disaster loss carryover deduction**

If the S corporation has a disaster loss carryover deduction, enter the total amount from Part III, line 2 of the 2000 FTB 3805Q only if the corporation has income in the current year.

**Line 22 – Tax**

S corporations must use a tax rate of 1.5%. Financial S corporations must use the financial tax rate of 3.5%. The tax on line 22 may not be less than the sum of the minimum franchise tax and QSub annual tax(es), if applicable. See General Information B, Tax Rate and Minimum Franchise Tax.

If the S corporation is the parent of a QSub subject to the annual tax and paid the \$800 annual tax on behalf of such QSub, add the total amount of QSub annual tax(es) to the tax on net income or the minimum franchise tax, whichever is applicable, and enter the result on line 22. Use the QSub Information Worksheet on page 35 of this booklet.

**Example 1:** Corporation A, an S corporation, is the parent of three QSubs, B, C, & D. QSub B & C are either incorporated or qualified to do business in California. QSub D is not incorporated, doing business, or qualified to do business in California. Corporation A is subject to the minimum Franchise tax of \$800 and \$1,600 of QSub annual tax for QSub B and C.

**Example 2:** Beta Corporation, an S corporation, is the parent of three QSubs. Only one of the QSubs is qualified and doing business in California. Beta Corporation reports net income for California tax purposes on line 21 of \$100,000. Tax on net income is \$1,500. On line 22, Beta Corporation will report tax of \$2,300. The \$2,300 includes tax on net income of \$1,500 plus \$800 of QSub annual

tax payments for one QSub. Beta corporation is not required to pay the QSub tax on the two QSubs not doing business in California.

**Line 23 through Line 25 – Tax credits**

Credits may be used to reduce the California tax liability, however, credits may not be used to reduce the tax on line 22 to an amount less than the sum of the minimum franchise tax plus the QSub annual tax(es), if applicable. Also, the S corporation is allowed to claim only 1/3 of the total credit generated against the 1.5% franchise tax. See General Information AA, Passive Activity Credits, and BB, Tax Credits.

Complete and attach the applicable credit form for each credit claimed to Form 100S. For any carryover credits only, complete form FTB 3540, Credit Carryover Summary. See page 14 for a list of available credits.

Transfer the credit(s) from the respective credit forms to Schedule C (100S) to compute the amount of credit to claim on Form 100S. Then transfer the credit(s) from Schedule C (100S) to Form 100S. Each credit is identified by a code number. To claim one or two credits, enter the credit name, code number, and the amount of the credit on line 23 and line 24. Enter the total of any remaining credits from Schedule C (100S) on line 25. Do not make an entry on line 25 unless line 23 and line 24 are complete.

Attach all credit forms, schedules, and Schedule C (100S) to Form 100S.

**Line 28 – Tax from Schedule D (100S)**

S corporations must enter the tax from Schedule D (100S) (included in this booklet). See General Information J, Built-in Gains, for more information.

**Line 29 – Excess net passive income tax**

If the corporation has always been a S corporation for California purposes or has no federal excess net passive investment income, the excess net passive investment

income tax does not apply. See General Information S, Excess Net Passive Investment Income, for more information.

To determine if the S corporation owes this tax, complete line 1 through line 3 and line 9 of the "Excess Net Passive Income and Income Tax Worksheet" below. If line 2 is greater than line 3 and the S corporation has taxable income, it must pay the tax. Complete a separate schedule using the format of line 1 through line 11 of the worksheet below to figure the tax. Enter the tax from line 11 of the worksheet on Form 100S, Side 1, line 29. Attach the schedule showing the computation. Reduce each item of passive income passed through to shareholders by its pro-rata share of the tax on line 29. See IRC Section 1366(f)(3) and R&TC Section 23803(b)(2).

R&TC Section 23811(e) provides a deduction for C corporation earnings and profits attributable to California sources for any taxable year by the amount of a consent dividend paid after the close of the taxable year. The amount of the consent dividend is limited to the difference between the C corporation earnings and profits attributable to California sources and the C corporation earnings and profits for federal purposes.

**Line 32 – 2001 estimated tax payments**

Enter the total amount of estimated tax payments made during the 2001 taxable year on line 32. If the S corporation is the parent of a QSub and made payments for the QSub annual tax, include the total amount of QSub annual tax payment made during 2001 on line 32 along with the total estimated tax payments. See General Information DD, Qualified Subchapter S Subsidiary (QSub), for more information. Be sure to complete the Schedule QS Information Worksheet on page 35 of this booklet and attach it to the return.

*(continued on page 15)*

**Excess Net Passive Income and Income Tax Worksheet**

1 Enter gross receipts for the taxable year (see IRC Section 1362(d)(3)(B) for gross receipts from the sale of capital assets)*	1		
2 Enter passive investment income as defined in IRC Section 1362(d)(3)(C)*	2		
3 Enter 25% (.25) of line 1. If line 2 is less than line 3, the corporation is not liable for this tax	3		
4 Excess passive investment income. Subtract line 3 from line 2	4		
5 Enter expenses directly connected with the production of income on line 2 (see IRC Section 1375(b)(2))*	5		
6 Net passive income. Subtract line 5 from line 2	6		
7 Divide the amount on line 4 by the amount on line 2	7		
8 Excess of net passive income. Multiply line 6 by line 7. See instructions on line 11 below	8		
9 Enter taxable income**	9		
10 Enter the smaller of line 8 or line 9	10		
11 Excess net passive income tax. Enter 8.84% (financial S corporations must use 10.84%) of line 10 here and on Form 100S, Side 1, line 29. (If an amount is entered here, go to line 8 above and carry the line 8 amount to Form 100S, line 17.)	11		

\* Income and expenses on line 1, line 2, and line 5 are from total operations for the taxable year. This includes applicable income and expenses from Form 100S, Side 1. See IRC Sections 1362(d)(3)(C) and 1375(b)(4) for exceptions regarding line 2 and line 5.

\*\* Taxable income is defined in federal Treas. Regulations Section 1.1374-1A(d). Figure taxable income by completing line 1 through line 17 of Form 100, California Corporation Franchise or Income Tax Return. Clearly mark "ENPI Taxable Income" on the Form 100 computation and attach it to Form 100S.

<b>CREDIT NAME</b>	<b>CODE</b>	<b>DESCRIPTION</b>
<b>Current Credits</b>		
Community Development Financial Institution Deposits – Obtain certification from: CALIFORNIA ORGANIZED INVESTMENT NETWORK (COIN) DEPARTMENT OF INSURANCE 300 CAPITOL MALL, STE 1460 SACRAMENTO CA 95814	209	20% of a qualified investments made into a community development financial institution
Disabled Access for Eligible Small Businesses – FTB 3548	205	Similar to the federal credit, but limited to \$125 per eligible small business, and based on 50% of qualified expenditures that do not exceed \$250
Donated Agricultural Products Transportation – FTB 3547	204	50% of the costs paid or incurred for the transportation of agricultural products donated to nonprofit charitable organizations
Employer Child Care Contribution – FTB 3501	190	Employer: 30% of contributions to a qualified plan
Employer Child Care Program – FTB 3501	189	Employer: 30% of the cost of establishing a child care program or constructing a child care facility
Enhanced Oil Recovery – FTB 3546	203	1/3 of the similar federal credit but limited to qualified enhanced oil recovery projects located within California
Enterprise Zone Hiring & Sales or Use Tax – FTB 3805Z	176	Business incentives for enterprise zone businesses
Farmworker Housing – Construction	207	50% of qualified costs paid or incurred to construct or rehabilitate qualified farmworkers housing
Farmworker Housing – Loan Obtain certification from: FARMWORKER HOUSING ASSISTANCE PROGRAM, CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE 916 CAPITOL MALL, ROOM 485 SACRAMENTO CA 95814	208	Banks and financial corporations: 50% of foregone interest income on qualified farmworker housing loans
Joint Strike Fighter Wages – FTB 3534	215	50% of qualified wages paid or incurred in taxable years beginning on or after January 1, 2001, not to exceed \$10,000 for each qualified employee, or a proportional amount for an employee who is employed by the taxpayer for only part of the taxable year
Joint Strike Fighter Property Costs – FTB 3534	216	10% of the cost of property placed in service in California for ultimate use in a joint strike fighter
Local Agency Military Base Recovery Area (LAMBRA) Hiring & Sales or Use Tax – FTB 3807	198	Business incentives for LAMBRA's
Low-Income Housing – FTB 3521	172	Similar to the federal credit but limited to low-income housing in California
Manufacturers' Investment – FTB 3535	199	6% of the cost of qualified property
Manufacturing Enhancement Area – FTB 3808	211	Hiring Credit for Manufacturing Enhancement Area
Natural Heritage Preservation – FTB 3503	213	55% of the fair market value of the qualified contribution of property donated to the state, any local government, or any nonprofit organization designated by a local government.
Prior Year Alternative Minimum Tax – FTB 3510	188	Must have paid alternative minimum tax in a prior year and have no alternative minimum tax liability in the current year
Prison Inmate Labor – FTB 3507	162	10% of wages paid to prison inmates
Research – FTB 3523	183	Similar to the federal credit but limited to costs for research activities in California
Rice Straw Obtain certification from: DEPARTMENT OF FOOD AND AGRICULTURE 1220 N STREET, ROOM 409 SACRAMENTO CA 95814	206	\$15 per ton of rice straw grown in California
Solar Energy System – FTB 3508	217	A credit equal to the lesser of 15% or 7½% of the net cost paid to purchase and install a solar energy system for the production of electricity, or the \$4.50 per rated watt of generating capacity of that system.
Targeted Tax Area (TTA) Hiring & Sales or Use Tax – FTB 3809	210	Business incentives for TTA businesses
<b>Repealed Credits with Carryover Provisions</b>		
Agricultural Products	175	The expiration dates for these credits have passed. However, these credits had carryover provisions. You may claim these credits if there is a carryover available from prior years. If you are not required to complete Schedule P (100), get form FTB 3540, Credit Carryover Summary, to figure your credit carryover to future years.
Commercial Solar Electric System	196	
Commercial Solar Energy	181	
Contribution of Computer Software	202	
Employer Ridesharing – Large employer	191	
Employer Ridesharing – Small employer	192	
Employer Rideshare – Transit	193	
Energy Conservation	182	
Los Angeles Revitalization Zone (LARZ) Hiring & Sales or Use Tax	159	
Low Emission Vehicles	160	
Orphan Drug	185	
Recycling Equipment	174	
Ridesharing	171	
Salmon & Steelhead Trout Habitat Restoration	200	
Solar Energy	180	
Solar Pump	179	
Technology Property Contributions	201	

### Line 33 – 2001 Nonresident Withholding

If the corporation was withheld upon, enter the 2001 nonresident withholding credit that was not allocated to the shareholders. Attach any Form 592-B, Form 594, or Form 597 that the corporation received from the withholding entity to the front of Form 100S, Side 1.

### Line 36 and Line 37 – Tax due or overpayment

In addition to any amount entered on line 36 or line 37, tax due or overpayment, also include any amounts required to be included from Schedule J, Add-On Taxes or Recapture of Tax Credits, included in this booklet. See Schedule J instructions for more information.

### Line 38 – Amount to be credited to 2002 estimated tax

If the corporation chooses to have the overpayment credited to next year's estimated tax payment, the corporation cannot later request that the overpayment be applied to the prior year to offset any tax due.

### Line 39 – Refund

#### Direct Deposit of Refund (DDR)

Direct deposit is fast, safe, and convenient. To have the refund directly deposited into the corporation's bank account, fill in the account information on Form 100S, Side 1, line 39a, b, and c. Please be sure to fill in all the information.

**Do not** attach a voided check or deposit slip. The illustration (upper right) shows which bank numbers to transfer to the preprinted areas on Form 100S, Side 1, line 39a, b, and c.

To cancel the DDR, call FTB at (800) 852-2753. FTB is not responsible when a financial institution rejects a direct deposit. If the bank or financial institution rejects the direct deposit due to an error in the routing number or account number, FTB will issue a paper check.

### Line 40 – Penalties and interest

Enter on line 40a the amount of any penalties and interest due.

Complete and attach form FTB 5806, Underpayment of Estimated Tax by Corporations, to the **front** of Form 100S only if Exception B or Exception C is used to compute or eliminate the penalty. Be sure to check the box on line 40b.

## Schedules

### Schedule B (100S)

Use Schedule B (100S) to calculate depreciation and amortization for California purposes. Effective January 1, 1998, California law conforms to federal law regarding the income forecast method and the exemption of limits on depreciation for incremental costs of clean fuel vehicles.

California generally conforms to the provisions of IRC Section 197 for amortization of



Do not use a deposit slip to find the bank numbers. Contact your financial institution for assistance in getting the correct routing number.

intangibles for taxable years beginning on or after January 1, 1994. However, there may be differences in the federal and California amounts for intangible assets acquired in taxable years beginning prior to January 1, 1994. See R&TC Section 24355.5 for more information.

California did not allow depreciation under the federal accelerated cost recovery system (ACRS) for years prior to 1987. California also does not allow depreciation under MACRS for assets placed in service while the corporation was taxable as a C corporation.

S corporations must continue calculating the California depreciation deduction for assets placed in service before January 1, 1987, in the same manner as in prior years. Get form FTB 3885, Corporation Depreciation and Amortization, to determine how to continue depreciating these assets. The following were the most common methods used to calculate depreciation for years prior to 1987:

- Straight-line;
- Declining-balance; and
- Sum-of-the-years digits.

For assets placed in service in 1987 and after, S corporations may use the same method for California as was used for federal purposes. S corporations conducting a trade or business inside an EZ, a LAMBRA, or a TTA may elect to treat a portion of the cost of qualified property as a business expense in the first year it is placed in service. This expense deduction is in lieu of the IRC Section 179 expense deduction. For more information, get form FTB 3805Z, form FTB 3807, or form FTB 3809.

### Schedule C (100S)

Use Schedule C (100S) to determine the allowable amount of credits to claim on the 2001 Form 100S and the credit carryover to future years. For more information, see General Information Z, Passive Activity Loss Limitation, AA, Passive Activity Credits, and BB, Tax Credits.

**Column (a)** The amount entered in column (a) must be limited to 1/3 the amount of the total credit.

### Schedule D (100S)

Schedule D (100S) is divided into Section A and Section B. Use Section A to report all built-in gains and certain capital gains subject to the 8.84% tax rate (10.84% for financial S corporations). Use Section B to report all other capital gains subject to the 1.5% tax rate (3.5% for financial S corporations). See General Information J, Built-in Gains, for more information.

**Note:** Use California amounts when computing gain from like-kind exchanges on federal Form 8824.

#### Section A

##### Part I and Part II

S corporations use Part I to report and summarize gains and losses attributable to: (1) sale or exchange of capital assets; and (2) gains on distributions to shareholders of appreciated assets that are capital assets. Be sure to use the California basis for all assets when computing the gain or loss. See the instructions for federal Schedule D (Form 1120S), for more information.

##### Line 2 and Line 5

Use California amounts when figuring the amount to enter for short or long-term capital gains or losses from like-kind exchanges from federal Form 8824.

##### Part III

Part III of Schedule D (100S) has been deleted because it does not apply to current year sales. The capital gains tax was a three year transitional partial relief from the built-in gains tax for certain corporations that made their S election either before 1987 or between 1987 and 1988. Part III of Schedule D (100S) and instructions relating thereto for the former capital gains tax can be found in the Form 100S Booklets for tax years 2000 and prior.

##### Part IV

##### Line 16

To determine if the S corporation is subject to tax on built-in gains, see the instructions for federal Schedule D (Form 1120S) and General

Information J, Built-in Gains, for more information.

### Apportioning corporations only:

All recognized built-in gains and all recognized built-in losses apportioned and allocated to California must be included on line 16.

#### Line 18

If the S corporation:

- Filed its election to be an S corporation after 1986;
- Was a C corporation before it elected to be an S corporation, or acquired an asset with a basis determined by reference to its basis (or the basis of any other property) in the hands of a C corporation; and
- Has a California net unrealized built-in gain as defined in IRC Section 1374(d)(1), that is in excess of the California net recognized built-in gain from prior years;

Then compute the California net unrealized built-in gain reduced by the California net recognized built-in gain from prior years.

On line 18, enter the smaller of line 16, line 17, or the amount computed above.

#### Line 19

Enter on line 19 the amount from form FTB 3805Q that reflects NOLs from the years the corporation was a C corporation. Reduce future NOL carryovers from C corporation years by the amount applied on line 19.

### Section B

S corporations use Part I and Part II to report the sale or disposition of all capital assets acquired as an S corporation or which are not reported in Section A. For more information, see the instructions for federal Schedule D (Form 1120S).

## Schedule F

See General Information I, Net Income Computation, for information on net income computation methods.

### Line 7 – Compensation of Officers

If the S corporation's total receipts are \$150,000 or more, complete and attach a schedule showing the compensation of officers. On the schedule list:

- Name of officer;
- Social security number of officer;
- Percentage of time devoted to the business;
- Percentage of stock owned; and
- Amount of compensation.

Also show the calculation of compensation of officers deducted:

- Total compensation of officers, minus
- Compensation of officers claimed in the cost of goods sold schedule and elsewhere on the return.

### Line 8 – Salaries and wages

Gain from the exercise of California Qualified Stock Options (QSOs) issued and exercised after 1996 and before 2002, can be excluded from gross income if the individual's earned income is \$40,000 or less. The exclusion from

gross income is subject to the alternative minimum tax and the S corporation is not allowed a deduction for the compensation excluded from the employee's gross income.

## Schedule J

Complete Schedule J if the S corporation has credit amounts to recapture or is required to include installment payments of "add-on" taxes for:

- LIFO recapture resulting from an S corporation election;
- Interest computed under the look-back method for completed long-term contracts;
- Interest on tax attributable to installment sales of certain property or use of the installment method for non-dealer installment obligations; or
- IRC Section 197(f)(9)(B)(ii) election to recognize gain on the disposition of an IRC Section 197 intangible.

Revise the tax due or overpayment on Form 100S, line 36 or line 37, as appropriate, by the amount from Schedule J, line 6.

### LIFO recapture tax

If the S corporation computed the LIFO recapture tax in the final year as a C corporation, include on Schedule J, line 1, any LIFO installment due this taxable year.

### Long-term contracts

If the S corporation must compute interest under the look-back method for completed long-term contracts, complete form FTB 3834, Interest Computation Under the Look-Back Method for Completed Long-Term Contracts, and include the amount of interest the S corporation owes or the amount of interest to be credited or refunded to the S corporation on Schedule J, line 2. Attach form FTB 3834 to Form 100S. If interest is to be credited or refunded, enter as a negative amount.

### Interest on tax attributable to payments received on installment sales of certain timeshares and residential lots

If the S corporation elected to pay interest on the amount of tax attributable to payments received on installment obligations arising from the disposition of certain timeshares and residential lots under IRC Section 453(l)(3) (R&TC Section 24667), it must include the interest due on Schedule J, line 3a. For the applicable interest rates, get FTB Pub. 1138, Refund/Billing Information. Attach a schedule showing the computation.

### Interest on tax deferred under the installment method for certain nondealer installment obligations

If an obligation arising from the disposition of property to which IRC Section 453A (R&TC Section 24667) applies is outstanding at the close of the taxable year, the corporation must include the interest due under IRC Section 453A(c) on Schedule J, line 3b. Attach a schedule showing the computation. For the applicable interest rates, get FTB Pub. 1138, Refund/Billing Information.

### IRC Section 197(f)(9)(B)(ii) election

Complete Schedule J, line 4 if the corporation elected to pay tax on the gain from the sale of an intangible under the related person exception to the anti-churning rules.

### Credit recaptures

Complete Schedule J, line 5, if the S corporation completed the credit recapture portion of:

- FTB 3501, Employer Child Care Program/Contribution Credit;
- FTB 3805Z, Enterprise Zone Deduction and Credit Summary, Part VI;
- FTB 3806, Los Angeles Revitalization Zone Deduction and Credit Summary, Part IV;
- FTB 3807 Local Agency Military Base Recovery Area Deduction and Credit Summary, Part VI;
- FTB 3808, Manufacturing Enhancement Area Credit Summary, Part III;
- FTB 3809, Targeted Tax Area Deduction and Credit Summary, Part V; or
- FTB 3535 Manufacturers' Investment Credit, Part III.

Also complete Schedule J, line 5, if the corporation is subject to recapture of

- The Farmworker Housing Credits;
- The Joint Strike Fighter Credit for Property Costs;
- The Community Development Investment Credit; or
- The Solar Energy System Credit.

## Schedule K and Schedule K-1

**Shareholders' share of income, deductions, credits, etc.**

### Purpose of schedules

Schedule K (100S) is a summary schedule of all the shareholders' shares of the S corporation's income, deductions, credits, etc. Schedule K-1 (100S) shows each shareholder's separate share of pass-through items and adjusted basis. Use federal Schedule K and Schedule K-1 (Form 1120S) as a basis for preparing California Schedule K and Schedule K-1 (Form 100S).

**Note:** Amounts on Schedule K-1 (100S) may not add up to amounts reflected on Form 100S, Side 1 amounts because Side 1 calculates tax at the S corporation level while Schedule K-1 (100S) amounts are calculated using different rules.

Attach one copy of each Schedule K-1 (100S) to the Form 100S filed with the FTB. Keep one copy of each Schedule K-1 (100S) for the S corporation's records, and give each shareholder a copy of Schedule K-1 (100S) on or before the due date of Form 100S.

**Note:** Be sure to give each shareholder a copy of either the Shareholder's Instructions for Schedule K-1 (100S) (included in this booklet) or specific instructions for each item reported on the shareholder's Schedule K-1 (100S).

### Substitute forms

You need approval from the FTB to use a substitute Schedule K-1 (100S). The substitute schedule must include the Shareholder's Instructions for Schedule K-1 (100S) or other prepared specific instructions. For more information, get FTB Pub. 1098, Guidelines for the Development and Use of Substitute, Scannable, and Reproduced Tax Forms.

### Special reporting requirements for passive activities

If items of income (loss), deduction, or credit from more than one activity are reported on Schedule K-1 (100S), the S corporation must attach a statement to Schedule K-1 (100S) for each activity that is a passive activity to the shareholder. Rental activities are passive activities to all shareholders. Trade or business activities are passive activities to shareholders who do not materially participate in the activity.

The attachment must include all the information explained in the instructions for federal Schedule K-1 (Form 1120S).

## Specific Line Instructions

### Item A through Item E (Schedule K-1 (100S) only)

To ensure correct processing of Schedule K-1 (100S), answer all items that are appropriate.

### Item A and Item B (Schedule K-1 (100S) only)

See the instructions for Item A and Item C of federal Schedule K-1 (Form 1120S).

## Income

### Line 1 – Ordinary income (loss) from trade or business activities

Enter in column (c) any California adjustments to ordinary income that do not need to be separately stated. Include in this column the adjustment to add back the minimum franchise tax or the 1.5% tax deducted for federal purposes.

### Line 2 – Net income (loss) from rental real estate activities

Enter the net income and expenses of any rental real estate activity of the S corporation. If the S corporation has more than one rental real estate activity reported on these lines, attach a separate schedule or use Schedule K-1 (100S), line 23 to list the income or loss from each activity, plus any other information required under the rules for passive activities. Attach form FTB 3801, Passive Activity Loss Limitations, to Form 100S.

### Line 3a, Line 3b, and Line 3c – Net income (loss) from other rental activities (Schedule K (100S) only)

Enter the net income and expenses of other rental activities not listed on line 2 above. If the S corporation has more than one rental activity reported on these lines, attach a separate schedule listing the income or loss from each activity, plus any other information required under the rules for passive activities.

### Line 4a through Line 4f – Portfolio income (loss)

Portfolio income (loss) is any gross income from interest, dividends, annuities, or royalties that is not derived in the ordinary course of business. Portfolio income must be separately accounted for as such. Portfolio income also includes gains or losses from the sale or other disposition of property (other than an interest in a passive activity) producing portfolio income or held for investment.

### Line 4a, Line 4b, and Line 4c – Interest, dividend, and royalty income

Enter only taxable interest, dividend, and royalty income that is portfolio income.

### Line 4d and Line 4e – Net capital gain (loss)

Enter on line 4d and line 4e the amount of capital gains and losses that is portfolio income (loss). If any of the income (loss) is not portfolio income (loss), include it on line 6.

### Line 4f – Other portfolio income (loss)

Enter any other portfolio income (loss) not entered on line 4a through line 4e.

### Line 5 – Net gain (loss) under IRC Section 1231

The amount for line 5 comes from Schedule D-1, Sales of Business Property. Do not include specially allocated ordinary gains and losses or net gains or losses from involuntary conversions due to casualties or thefts on this line. Instead, report these gains or losses on line 6.

If the S corporation has more than one activity and the amount on line 5 is a passive activity amount to the shareholder, attach a statement to Schedule K-1 (100S) (or use Schedule K-1 (100S), line 23) to identify to which activity the IRC Section 1231 gain (loss) relates.

### Line 6 – Other income (loss)

Enter any other item of income or loss not included on line 1 through line 5, such as:

- Wagering gains and losses. See IRC Section 165(d).
- Recovery of tax benefit items. See IRC Section 111.
- Any gain or loss where the S corporation was a trader or dealer in IRC Section 1256 contracts or property related to such contracts. See IRC Section 1256(f).
- Net gain (loss) from involuntary conversions due to casualty or theft.
- Loss(es) from qualified low-income housing projects for shareholders that are qualified investors.
- Eligible gain from the sale or exchange of qualified small business stock (defined in R&TC Section 18152.5). Also report on an attachment to Schedule K (100S) and Schedule K-1 (100S) the name of the corporation that issued the stock and the adjusted basis of that stock.

**Note:** The exclusion allowed under R&TC Section 18152.5 for small business stock is not allowed for an S corporation but is allowed for the shareholder.

## Deductions

### Line 7 – Charitable contributions

Enter the total amount of charitable contributions made by the S corporation during its taxable year on Schedule K (100S) and each shareholder's distributive share on Schedule K-1 (100S). On an attachment to each schedule, separately show the dollar amount of contributions subject to each of the 50%, 30%, and 20% of adjusted gross income limits.

A resident shareholder is allowed a deduction for contributions to a qualified organization as provided in IRC Section 170.

### Line 8 – Expense deduction for recovery property

The amount of expense deduction for recovery property that can be claimed from all sources will vary depending on the type of property and the year of designation. For more information, see IRC Section 179 and R&TC Sections 17201, 17267.2, 17267.6, and 17268.

### Line 9 – Deductions related to portfolio income (loss)

Enter on this line the deductions allocable to portfolio income (loss) other than interest expenses. Generally, these deductions are IRC Section 212 expenses and are subject to IRC Section 212 limitations at the shareholder level. However, interest expense related to portfolio income (loss) is generally investment interest expense and is reported on line 11a.

## Investment Interest

### Line 11a through Line 11b(2)

These lines must be completed whether or not a shareholder is subject to the investment interest rules.

### Line 11a – Interest expense on investment debts

Include on this line interest paid or accrued to purchase or carry property held for investment. Property held for investment includes property that produces portfolio income (interest, dividends, annuities, royalties, etc.). Therefore, interest expense allocable to portfolio income should be reported on Schedules K and K-1 (100S), line 11a rather than Schedules K and K-1 (100S), line 9. Investment interest does not include interest expense allocable to a passive activity. A passive activity is a rental activity or a trade or business activity in which the shareholder does not materially participate.

Property held for investment includes a shareholder's interest in a trade or business activity that is not a passive activity to the shareholder and in which the shareholder does not materially participate. An example would be a shareholder's working interest in oil and gas property (i.e., the shareholder's interest is not limited) if the shareholder does not materially participate in the oil and gas activity.

The amount on line 11a will be reflected (after applying the investment interest expense limitations) by individual shareholders on their Schedule CA (540 or 540NR), California Adjustments.

For more information, get form FTB 3526, Investment Interest Expense Deduction.

### **Line 11b(1) and Line 11b(2) – Investment income and expenses**

Enter on line 11b(1) only the investment income included on Schedules K and K-1 (100S), line 4a, line 4b, line 4c, and line 4f. Enter on line 11b(2) only the investment expense included on Schedules K and K-1 (100S), line 9.

If there are items of investment income or expense included in the amounts that are required to be passed through separately to the shareholder on Schedule K-1 (100S), such as net short-term capital gain or loss, net long-term gain or loss and other portfolio gains or losses, give each shareholder a schedule identifying these amounts. See the instructions for Form 1120S, for more information on portfolio income.

Investment income includes gross income from property held for investment, gain attributable to the disposition of property held for investment, and other amounts that are gross portfolio income. Investment income and investment expenses do not include any income or expenses from a passive activity.

Property subject to a net lease is not treated as investment property because it is subject to the passive loss rules. Do not reduce investment income by losses from passive activities.

Investment expenses are deductible expenses (other than interest) directly connected with the production of investment income.

Get form FTB 3526 for more information.

## **Credits**

### **Line 12a – Low-income housing credit**

R&TC Section 23610.5 provides a credit that may be claimed by owners of residential rental projects providing low-income housing. The credit is generally effective for buildings placed in service after 1986. If the shareholders are eligible to claim the low-income housing credit, attach a copy of form FTB 3521, Low-Income Housing Credit, to Form 100S and to each shareholder's Schedule K-1 (100S).

### **Line 12b – Credits related to rental real estate activities**

Report any information that the shareholder needs to figure credits related to a rental real estate activity other than the low-income housing credit. Attach to each shareholder's Schedule K-1 (100S) a schedule showing the amount to be reported and the form on which the amount should be reported.

### **Line 12c – Credits related to other rental activities**

Use this line to report information that the shareholder needs to figure credits related to a rental activity other than a rental real estate activity. Attach to each shareholder's Schedule K-1 (100S) a schedule showing the amount to be reported and the form on which the amount should be reported.

### **Line 13 – Other credits**

Enter on an attached schedule each shareholder's allocable share of any credit or credit information reported on Schedule C (100S) that is related to a trade or business activity.

The following are examples of credits that may apply to each shareholder:

- Employer child care program/contribution credit (get form FTB 3501);
- Enterprise zone (EZ) hiring & sales or use tax credit (get form FTB 3805Z);
- Local agency military base recovery area (LAMBRA) hiring & sales or use tax credit (get form FTB 3807);
- Manufacturing enhancement area (MEA) hiring credit (get form FTB 3808);
- Targeted tax area (TTA) hiring and sales or use tax credit (get form FTB 3809);
- Research credit (get form FTB 3523); or
- Manufacturers' investment credit (get form FTB 3535).

## **Adjustments and Tax Preference Items**

### **Line 14a through Line 14e**

Enter the items of income and deductions that enter into each shareholder's computation of adjustments and tax preference items. A shareholder with alternative minimum tax items may be required to file Schedule P (540, 540NR, or 541), Alternative Minimum Tax and Credit Limitations.

Get the instructions for federal Schedules K and K-1 (Form 1120S), Adjustments and Tax Preference Items, line 14a through line 14e, for more information.

## **Other State Taxes**

### **Line 15a through Line 15e**

Subject to certain conditions, shareholders may claim a credit against their individual tax for net income taxes paid by the S corporation to another state that either taxes the corporation as an S corporation or does not recognize S corporation status. For purposes of this credit, net income taxes include the shareholder's share of taxes on, according to, or measured by income. Enter the name of the other state(s), the income reported to the other state(s), and the amount of tax paid. Attach a copy of the return filed with the other state.

Residents are taxable on all their pro-rata share of income and generally receive a credit for taxes paid to other states. Nonresidents

must use the amounts shown in column (e). See R&TC Sections 18001, 18002, and 18006 for more information.

## **Other**

### **Line 16a through Line 19**

Refer to the instructions for federal Schedules K and K-1 (Form 1120S).

### **Line 20 (Schedule K only)**

Enter total distributions made to shareholders other than dividends reported on Schedule K, line 22. Noncash distributions of appreciated property are valued at fair market value. Refer to the instructions for federal Form 1120S for the ordering rules on distributions.

### **Line 21 (Schedule K only)**

The S corporation may need to report supplemental information separately to each shareholder that is not specifically requested on the Schedule K-1 (100S).

Attach a schedule to the Schedule K showing the computation of those items that must be reported separately to shareholders including any credit recapture reported to shareholders on Schedule K-1, line 23.

Shareholders may need to obtain the amount of their proportionate interest of aggregate gross receipts, less returns and allowances, from the S corporation. As a result of legislation enacted in 1996, alternative minimum taxable income shall not include income, adjustments, and items of tax preference related to any trade or business of a qualified taxpayer who has gross receipts, less returns and allowances, during the taxable year of less than \$1,000,000 from all trades or businesses. The S corporation can provide the shareholder's proportionate interest of aggregate gross receipts on Schedule K-1 (100S), line 23. For purposes of R&TC Section 17062(b)(4), "gross receipts" means the sum of gross receipts from the production of business income (within the meaning of subdivisions (a) and (c) of R&TC Section 25120) and the gross receipts from the production of nonbusiness income (within the meaning of subdivision (d) of R&TC Section 25120). "Proportionate interest" includes an interest in a pass-through entity. See R&TC Section 17062, Instructions for federal Schedule K (1020S), line 21, and Schedule K-1 (100S) instructions for more information.

### **Line 22 (Schedule K only)**

Report the distribution amount made out of prior C corporation years accumulated earnings and profits (E&P). The corporation should issue a federal Form 1099-DIV to each of the shareholders reporting their proportionate distribution amounts.

### **Line 20 (Schedule K-1 only)**

Report the distribution amount for each shareholder that was paid out of prior C corporation years accumulated earnings and profits (E&P). Each shareholder should

receive a federal Form 1099-DIV reporting the proportionate distribution amount shown on Schedule K-1 (100S), line 20.

#### **Line 21 (Schedule K-1 only)**

Report the distribution amount for each shareholder for distributions other than dividends reported on Schedule K-1 (100S), line 20. Noncash distributions of appreciated property are valued at fair market value. Refer to the instructions for federal Form 1120S for the ordering rules on distributions.

#### **Line 22 (Schedule K-1 only)**

Report the amount of loan repayments the S corporation has made to each shareholder who has loaned the S corporation money.

## **Supplemental Information**

#### **Line 23 (Schedule K-1 only)**

The S corporation will provide supplemental information required to be reported to each shareholder on this line.

The S corporation should provide an amount showing each shareholder's proportionate interest in the S corporation's aggregate gross receipts, less returns and allowances, on Schedule K-1 (100S), line 23. See the instructions for Schedule K (100S), line 21.

Report the credit recapture amount on line 23 if the S corporation completed the credit recapture portion of:

- FTB 3501, Employer Child Care Program/Contribution Credit; or
- FTB 3805Z, Enterprise Zone (EZ), Part VI, Hiring Credit; or
- FTB 3806, Los Angeles Revitalization Zone (LARZ) Hiring Credit & Sales or Use Tax Credit; or
- FTB 3807, Local Agency Military Base Recovery Area (LAMBRA) Hiring Credit & Sales or Use Tax Credit; or
- FTB 3535, Manufacturers' Investment Credit; or
- FTB 3809, Targeted Tax Area (TTA) Hiring Credit & Sales or Use Tax Credit; or
- FTB 3808, Manufacturing Enhancement Area (MEA) Hiring Credit.

Also report the credit recapture amount on line 23 if the corporation is subject to recapture of:

- The Farmworker Housing Credits;
- The Joint Strike Fighter Credit for Property Costs; or
- The Community Development Investment Credit.

Also show on line 23 a statement showing each of the following:

1. Each shareholder's share of business income apportioned to an EZ, LAMBRA, MEA, or TTA; and
2. Each shareholder's pro-rata share of business capital gain or loss included in 1 above.

#### **Table 1 and Table 2**

Table 1 – Enter the shareholder's pro-rata share of nonbusiness income from intangibles. Because the source of this income must be determined at the shareholder level, do not enter income in this category in column (e). If the income (loss) for an income item is a mixture of income (loss) in different subclasses (for example, short and long term capital gain), attach a supplemental schedule providing a breakdown of income in each subclass.

Nonbusiness income is all income other than business income. See definition of business income below.

Table 2 – In Part A, enter the shareholder's pro-rata share of the S corporation's business income. The shareholder will then add that income to its own business income and apportion the combined business income.

Business income is defined by Title 18 Cal. Code Reg. Section 25120(a) as income arising in the regular course of the taxpayer's trade or business. Business income includes income from tangible and intangible property if the acquisition, management, and disposition of the property constitutes integral parts of the taxpayer's regular trade or business.

In Part B, enter the shareholder's pro-rata share of nonbusiness income from real and tangible property that is located in California. Because this income has a California source, this income should also be included on the appropriate line in column (e).

In Part C, enter the shareholder's pro-rata share of the S corporation's payroll, property, and sales factors.

## **Schedule L**

#### **Line 23**

Retained earnings include balances in the accumulated adjustments account (AAA), the other adjustments account, and other retained earnings.

## **Schedule M-1**

Schedule M-1 is used to reconcile the difference between book and tax accounting for an income or expense item. The S corporation must complete Schedule M-1 if total assets of the entity are at least \$25,000. The federal and state Schedule M-1 may be the same when you use the federal reconciliation method for net income computation. See General Information I, Net Income Computation, for more information. The Schedule M-1 will be different if using the California computation method for net income. The California computation method is generally used when the S corporation has no federal filing requirement, or if the S corporation maintains separate records for state purposes.

## **Schedule M-2**

The computation of the California AAA and other adjustments account (OAA) is similar to the federal computation applying California amounts. Get the instructions for federal Form 1120S and IRC Section 1368 for additional information.

**Column (a)** – The AAA is an account of the S corporation that generally reflects the accumulated undistributed net income of the corporation for the corporation's post-1986 years. S corporations with accumulated E&P from C corporation years must maintain the AAA to determine the tax effect of distributions during S corporation years and the post-termination transition period. An S corporation without accumulated E&P does not need to maintain the AAA in order to determine the tax effect of distributions. However, if an S corporation without accumulated E&P engages in certain transactions to which IRC Section 381(a) applies, such as a merger into an S corporation with accumulated E&P, the S corporation must be able to calculate its AAA at the time of the merger for purposes of determining the tax effect of post-merger distributions. Therefore, it is recommended that all S corporations maintain the AAA.

At the end of the taxable year, the AAA is determined by taking into account all items of income, loss, and deductions for the taxable year (including nondeductible losses and expenses that are not capitalized but excluding certain exempt income and state taxes attributable to C corporation years). After the year-end income and expense adjustments are made, the account is reduced by distributions made during the taxable year. The AAA should be reduced by the California built-in gains tax amount and the minimum franchise tax.

**Note:** The amount on Form 100S, Side 1, line 2, should be included as an other addition on Schedule M-2, line 3, and as an other reduction on Schedule M-2, line 5. Also include any other adjustments to arrive at California income.

**Note:** The AAA may have a negative balance at year end as a result of losses or deductions from the S corporation.

**Column (b)** – The other adjustments account is adjusted for tax-exempt income (and related expenses) of the S corporation. After adjusting for tax-exempt income, the account is reduced for any distributions made during the year.

**Column (c)** – Other retained earnings include appropriated and unappropriated retained earnings accumulated in prior years when the S corporation was a C corporation. Line 1, column (c) for the first S corporation return will be the sum of the ending balances of appropriated and unappropriated retained earnings for the previous year.

## Distributions

Generally, property distributions (including cash) are applied in the following order to reduce accounts of the S corporation that are used to compute the tax effect of distributions made by the S corporation to its shareholders:

1. Reduce the AAA determined without regard to any net negative adjustment for the taxable year (but not below zero). If distributions during the taxable year exceed the AAA at the close of the taxable year determined without regard to any net negative adjustment for the taxable year, the AAA is allocated pro-rata to each distribution made during the taxable year. See IRC Section 1368(c). The term “net negative adjustment” means the excess, if any, of the reductions in the AAA for the taxable year (other than distributions) over the increases in the AAA for the taxable year.
2. Reduce accumulated E&P. Generally, the S corporation has accumulated E&P only if it has not distributed E&P accumulated in prior years when the S corporation was a C corporation (IRC Section 1361(a)(2)), or when the S corporation merged with another corporation that has C corporation accumulated E&P. The only adjustments that can be made to the accumulated E&P of an S corporation are:
  - a. Reductions for dividend distributions; and
  - b. Adjustments for redemptions, liquidations, reorganizations, etc.
3. Reduce the other adjustment account.
4. Reduce any remaining shareholders' equity account.

**Note:** Shareholders' previously taxed income (PTI) (Column (c), federal Form 1120S, Schedule M-2, 1120S) — California S corporations will **never** have undistributed PTI. The federal code section that created PTI was removed from the IRC before California incorporated the federal S corporation provisions into the R&TC.

## Elections relating to the order of distributions

The corporation may modify the ordering rules by making one or more of the following elections:

- Election to distribute accumulated E&P first. If the corporation has accumulated E&P and wants to distribute E&P before making distributions from the AAA, it may elect to do so with the consent of all its affected shareholders (IRC Section 1368(e)(3)(B)). This election is irrevocable and applies only for the tax year for which it is made. For more information regarding this election, see “Statement Regarding Elections” to the right.
- Election to make a deemed dividend. If the corporation wants to distribute all or part of its C corporation accumulated E&P through a deemed dividend, it may elect to do so with the consent of all its affected shareholders (IRC Section 1368(e)(3)(B)). Under this section, the corporation will be treated as also having made the election to distribute E&P first. The amount of the deemed dividend cannot exceed the accumulated E&P at the end of the taxable year reduced by any actual distributions of accumulated E&P made during the taxable year. A deemed dividend is treated as if it were a pro-rata distribution of money to the shareholders, received by the shareholders, and immediately contributed back to the corporation all on the last day of the tax year. This election is irrevocable and applies only for the tax year for which it is made.

### Statement regarding elections

To make any of the above elections, the corporation must attach a statement to a timely filed original Form 100S or amended Form 100S for the year in which the election is made. The corporation must identify the election it is making and state that each

shareholder consents to the election. A corporate officer must sign the statement under penalties of perjury on behalf of the corporation. The statement of election to make a deemed dividend must include the amount of the deemed dividend distributed to each shareholder.

When making either of the above elections, the corporation must prepare copies of federal Form 1099-DIV for shareholders to report this dividend as taxable income.

**Note:** The corporation may file the election for California purposes only. It is not necessary for the corporation to have the same election for federal purposes in order to make a California election. However, regardless of whether or not the corporation makes the same election on the federal return, the corporation must attach a separate election statement to the California return.

### C corporation E&P

Check the box below Schedule M-2, line 9, if the S corporation was a C corporation in a prior year(s) and has C corporation E&P at the end of the taxable year. For this purpose, C corporation E&P means the remaining balance of E&P of any S corporation for any taxable year when it was not an S corporation. If the S corporation has C corporation E&P, it may be liable for excess net passive income tax and the distributions to shareholders may have different tax consequences for federal and California purposes. See instructions for Form 100S, Side 1, line 28 and line 29, for details on these taxes.

California S Corporation Franchise or Income Tax Return

For calendar year 2001 or fiscal year beginning month day year 2001, and ending month day year 20
California corporation number Federal employer identification number
Corporation name
Address PMB no.
City State ZIP Code
A Final tax return?
B Did this S corporation have a change in control or ownership, or acquire ownership or control of any other legal entity this year?
C Principal business activity code.
D Is this corporation filing on a water's-edge basis pursuant to R&TC Sections 25110 and 25111 for the current taxable year?

Table with columns for State Adjustments, Calif. Net Income, Taxes, Payments, and Refund - Direct Deposit of Refund or Amount Due. Rows include items 1-41 with descriptions and checkboxes.

Schedule F **Computation of Trade or Business Income.** See instructions.

<b>Income</b>	<b>1</b> a) Gross receipts or sales _____ b) Less returns and allowances _____ Balance ..	<b>1c</b>	
	<b>2</b> Cost of goods sold from Schedule V, line 8 .....	<b>2</b>	
	<b>3</b> Gross profit. Subtract line 2 from line 1c .....	<b>3</b>	
	<b>4</b> Net gain (loss). Attach schedule .....	<b>4</b>	
	<b>5</b> Other income (loss). Attach schedule .....	<b>5</b>	
	<b>6</b> Total income (loss). Combine line 3 through line 5 .....	<b>6</b>	
<b>Deductions</b>	<b>7</b> Compensation of officers. Attach schedule. See instructions .....	<b>7</b>	
	<b>8</b> Salaries and wages .....	<b>8</b>	
	<b>9</b> Repairs .....	<b>9</b>	
	<b>10</b> Bad debts .....	<b>10</b>	
	<b>11</b> Rents .....	<b>11</b>	
	<b>12</b> Taxes .....	<b>12</b>	
	<b>13</b> Interest .....	<b>13</b>	
	<b>14</b> a) Depreciation _____ b) Less depreciation reported elsewhere on return _____ Balance ●	<b>14</b>	
	<b>15</b> Depletion .....	<b>15</b>	
	<b>16</b> Advertising .....	<b>16</b>	
	<b>17</b> Pension, profit-sharing, etc. plans .....	<b>17</b>	
	<b>18</b> Employee benefit programs .....	<b>18</b>	
	<b>19</b> a) Total travel and entertainment _____ b) Deductible amount .....	<b>19b</b>	
	<b>20</b> Other deductions. Attach schedule .....	<b>20</b>	
	<b>21</b> Total deductions. Add line 7 through line 20 .....	<b>21</b>	
	<b>22</b> Ordinary income (loss) from trade or business. Subtract line 21 from line 6. Enter here and on Side 1, line 1 ●	<b>22</b>	

Schedule V **Cost of Goods Sold**

<b>1</b> Inventory at beginning of year .....		<b>5</b> Other costs. Attach schedule .....	
<b>2</b> Purchases .....	●	<b>6</b> Total. Add line 1 through line 5 .....	
<b>3</b> Cost of labor .....	●	<b>7</b> Inventory at end of year .....	
<b>4</b> Other IRC Sec. 263A costs. Attach schedule ..	●	<b>8</b> Cost of goods sold. Subtract line 7 from line 6 ●	

Was there any substantial change in the manner of determining quantities, costs, or valuations between opening and closing inventory? .....  Yes  No  
 If "Yes," attach an explanation. Enter California seller's permit number, if any ▶ \_\_\_\_\_ Method of inventory valuation \_\_\_\_\_  
 Check if the LIFO inventory method was adopted this taxable year for any goods. If checked, attach federal Form 970 ..... ●   
 If the LIFO inventory method was used for this taxable year, enter the amount of closing inventory computed under LIFO ..... ●

Schedule J **Add-On Taxes or Recapture of Tax Credits.** See instructions.

<b>1</b> LIFO recapture due to S corporation election (IRC Sec. 1363(d) deferral: \$ _____) .....	●	<b>1</b>	
<b>2</b> Interest computed under the look-back method for completed long-term contracts (attach form FTB 3834) .....	●	<b>2</b>	
<b>3</b> Interest on tax attributable to installment: a) Sales of certain timeshares and residential lots .....	●	<b>3a</b>	
	b) Method for nondealer installment obligations .....	●	<b>3b</b>
<b>4</b> IRC Section 197(f)(9)(B)(ii) election .....	●	<b>4</b>	
<b>5</b> Credit recapture name: _____ .....	●	<b>5</b>	
<b>6</b> Combine line 1 through line 5. Revise the amount on Side 1, line 36 or line 37, whichever applies, by this amount. Write "Schedule J" to the left of line 36 or line 37 .....	●	<b>6</b>	

E Does this tax return include Qualified Subchapter S Subsidiaries? ... ● <input type="checkbox"/> Yes <input type="checkbox"/> No	K Effective Date of California S election: ● _____
F Date incorporated: _____ ● Where: State <input type="checkbox"/> Country _____	L Accounting method: ● (1) <input type="checkbox"/> Cash (2) <input type="checkbox"/> Accrual (3) <input type="checkbox"/> Other
G Maximum number of shareholders in the corporation at any time during the year: ● _____	M Location of principal accounting records: _____
H Date business began in California or date income was first derived from California sources: ● _____	N "Doing business as" name: ● _____
I Is the corporation under audit by the IRS or has it been audited in a prior year? ..... ● <input type="checkbox"/> Yes <input type="checkbox"/> No	O Have all required information returns (e.g., federal Form 1099, 8300, etc.) been filed with the Franchise Tax Board? ..... <input type="checkbox"/> N/A <input type="checkbox"/> Yes <input type="checkbox"/> No
J Effective date of federal S election: ● _____	P Is this corporation apportioning income to California using Schedule R? ..... ● <input type="checkbox"/> Yes <input type="checkbox"/> No
	Q During the taxable year, were gross receipts (less returns and allowances) of this corporation more than \$1 million? ..... <input type="checkbox"/> Yes <input type="checkbox"/> No

<b>Please Sign Here</b>	Under penalties of perjury, I declare that I have examined this tax return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.			
	Signature of officer	Title	Date	Telephone ( )
<b>Paid Preparer's Use Only</b>	Preparer's signature	Date	Check if self-employed <input type="checkbox"/>	Paid preparer's SSN/PTIN
	Firm's name (or yours, if self-employed) ▶ _____ and address	Telephone ( )		FEIN

Schedule K **S Corporation Shareholders' Shares of Income, Deductions, Credits, etc.**

	(a) Pro-rata share items	(b) Amount from federal Schedule K (1120S)	(c) California adjustment	(d) Total amount using California law. Combine (b) and (c) where applicable		
Income (Loss)	1 Ordinary income (loss) from trade or business activities			●		
	2 Net income (loss) from rental real estate activities			●		
	3 a Gross income from other rental activities					
	b Expenses from other rental activities. Attach schedule					
	c Net income (loss) from other rental activities. Subtract line 3b from line 3a			●		
	4 Portfolio income (loss):					
	a Interest			●		
	b Dividends			●		
	c Royalties			●		
	d Net short-term capital gain (loss). Attach schedule D (100S)			●		
e Net long-term capital gain (loss). Attach Schedule D (100S)			●			
f Other portfolio income (loss). Attach schedule			●			
5 Net gain (loss) under IRC Section 1231 (other than due to casualty or theft)			●			
6 Other income (loss). Attach schedule			●			
Deductions	7 Charitable contributions			●		
	8 Expense deduction for recovery property (R&TC Section 17267.2, Section 17267.6, Section 17268, and IRC Section 179). Attach Schedule B (100S)					
	9 Deductions related to portfolio income (loss). Attach schedule			●		
	10 Other deductions. Attach schedule					
Investment Interest	11 a Interest expense on investment debts			●		
	b (1) Investment income included on line 4a, line 4b, line 4c, and line 4f (2) Investment expenses included on line 9 above					
Credits	12 a Low-income housing credit. See instructions. Attach schedule			●		
	b Credits related to rental real estate activities other than on line 12(a). Attach schedule			●		
	c Credits related to other rental activities. See instructions. Attach schedule			●		
13 Other credits. Attach schedule	●					
Adjustments and Tax Preference Items	14 a Depreciation adjustment on property placed in service after 12/31/86					
	b Adjusted gain or loss. See instructions					
	c Depletion (other than oil and gas)					
	d (1) Gross income from oil, gas, and geothermal properties (2) Deductions allocable to oil, gas, and geothermal properties					
	e Other adjustments and tax preference items. Attach schedule					
Other State Taxes	15 a Type of income _____					
	b Name of state _____					
	c Total gross income from sources outside California. Attach schedule					
	d Total applicable deductions and losses. Attach schedule					
	e Total other state taxes. Check one: <input type="checkbox"/> Paid <input type="checkbox"/> Accrued	●				
Other	16 a Total expenditures to which an IRC Section 59(e) election may apply					
	b Type of expenditures _____					
	17 Tax-exempt interest income					
	18 Other tax-exempt income					
	19 Nondeductible expenses					
	20 Total property distributions (including cash) other than dividend distributions reported on line 22 below					
	21 Other items and amounts not included in line 1 through line 20 above that are required to be reported separately to shareholders. Attach schedule					
	22 Total dividend distributions paid from accumulated earnings and profits					
	23 Income (loss) (required only if Schedule M-1 must be completed). Combine line 1, line 2, and line 3c through line 6. From the result, subtract the sum of line 7 through line 11a and line 16a					

Schedule L Balance Sheets	Beginning of taxable year		End of taxable year	
	(a)	(b)	(c)	(d)
<b>Assets</b>				
1 Cash				
2 a Trade notes and accounts receivable				
b Less allowance for bad debts	( )		( )	
3 Inventories				●
4 Federal and state government obligations				
5 Other current assets. Attach schedule(s)				
6 Loans to shareholders. Attach schedule(s)				●
7 Mortgage and real estate loans				
8 Other investments. Attach schedule(s)				●
9 a Buildings and other fixed depreciable assets				
b Less accumulated depreciation	( )		( )	●
10 a Depletable assets				
b Less accumulated depletion	( )		( )	
11 Land (net of any amortization)				●
12 a Intangible assets (amortizable only)				
b Less accumulated amortization	( )		( )	
13 Other assets. Attach schedule(s)				
14 <b>Total assets.</b>		●		●
<b>Liabilities and shareholders' equity</b>				
15 Accounts payable				
16 Mortgages, notes, bonds payable in less than 1 year				
17 Other current liabilities. Attach schedule(s)				
18 Loans from shareholders. Attach schedule(s)				●
19 Mortgages, notes, bonds payable in 1 year or more				●
20 Other liabilities. Attach schedule(s)				
21 Capital stock		●		●
22 Paid-in or capital surplus		●		●
23 Retained earnings		●		●
24 Adjustments to shareholders' equity. Attach schedule(s)				
25 Less cost of treasury stock	( )		( )	
26 <b>Total liabilities and shareholders' equity</b>				

Schedule M-1 **Reconciliation of income (loss) per books with income (loss) per return.**  
Do not complete this schedule if the amount on Schedule L, line 14, column (d), is less than \$25,000.

1 Net income per books		5 Income recorded on books this year not included on Schedule K, line 1 through line 6 (itemize)	
2 Income included on Schedule K, line 1 through line 6, not recorded on books this year (itemize)	●	a Tax-exempt interest \$	●
3 Expenses recorded on books this year not included on Schedule K, line 1 through line 11a and line 16a (itemize)		6 Deductions included on Schedule K, lines 1 through 11 and line 16a, not charged against book income this year (itemize)	
a Depreciation \$		a Depreciation \$	
b State taxes \$		b State tax refunds \$	
c Travel and entertainment \$		7 Total. Add line 5 and line 6	
4 Total. Add line 1 through line 3	●	8 Income (loss) (Schedule K, line 23, col. d). Line 4 less line 7.	●

Schedule M-2 **CA accumulated adjustments account, other adjustments account, and other retained earnings.** See instructions.

Important: Use California figures and federal procedures.	(a) Accumulated adjustments account	(b) Other adjustments account	(c) Other retained earnings (see instructions)
1 Balance at beginning of year	●		
2 Ordinary income from Form 100S, Side 1, line 1			
3 Other additions			
4 Loss from Form 100S, Side 1, line 1	( )		
5 Other reductions	( )	( )	( )
6 Combine line 1 through line 5			
7 Distributions other than dividend distributions	●		
8 Balance at end of year. Subtract line 7 from line 6	●		
9 Retained earnings at end of year. Add line 8, column (a) through column (c)	●		●
● <input type="checkbox"/> If the corp. has C corp. E&P at the end of the taxable year, check the box and enter the amount. See instructions			●

2001 S Corporation Depreciation and Amortization

B (100S)

For use by S corporations only. Attach to Form 100S.

Corporation name as shown on Form 100S

California corporation number

Part I Depreciation. Use additional sheet(s) if necessary.

1 Enter federal depreciation from federal Form 4562, line 22. Note: IRC Section 179 expense deduction is not included on this line. See federal Form 4562 instructions 1

2 California depreciation:

Table with 7 columns: (a) Description of property, (b) Date acquired, (c) Cost or other basis, (d) Depreciation allowed or allowable in earlier years, (e) Method of figuring dep., (f) Life or rate, (g) Depreciation for this year

3 Add the amounts on line 2, column (g) 3

4 Subtract line 3 from line 1. Enter here and on the applicable line of Schedule K (100S) 4

5 Enter IRC Section 179 expense deduction here and on Form 100S, Side 1, line 13. Do not enter more than \$24,000 5

Part II Amortization. Use additional sheet(s) if necessary.

1 Enter federal amortization from federal Form 4562, line 44 1

2 California amortization:

Table with 7 columns: (a) Description of property, (b) Date acquired, (c) Cost or other basis, (d) Amortization allowed or allowable in earlier years, (e) R&TC section, (f) Period or percentage, (g) Amortization for this year

3 Add the amounts on line 2, column (g) 3

4 California amortization adjustment. Subtract line 3 from line 1. Enter here and on the applicable line of Schedule K (100S) 4

Part III Depreciation and Amortization Adjustment

Combine the amounts on Part I, line 4 and Part II, line 4. Enter here and on Form 100S, Side 1, line 5

2001 S Corporation Tax Credits

C (100S)

See instructions for Form 100S, General Information Z, AA, and BB. Be sure to complete and attach all supporting credit forms.

Table with 5 columns: (a) Credit amount limited to 1/3 of total, (b) Carryover from prior year, (c) Credit used this year (not more than (a) + (b)), (d) Tax balance, (e) Credit carryover to 2002. Rows include Regular tax, Minimum franchise tax, and various credit codes.

S Corporation
2001 Capital Gains and Losses and Built-In Gains

D (100S)

Corporation name as shown on Form 100S

California corporation number

SECTION A - 8.84% Tax on Built-In Gains

Part I Short-Term Capital Gains and Losses - Assets Held One Year or Less. Use additional sheet(s) if necessary.

Table with 6 columns: (a) Description of property, (b) Date acquired, (c) Date sold, (d) Gross sales price, (e) Cost or other basis plus expense of sale, (f) Gain (loss). Rows 2-3c.

Part II Long-Term Capital Gains and Losses - Assets Held More Than One Year. Use additional sheet(s) if necessary.

Table with 6 columns: (a) Description of property, (b) Date acquired, (c) Date sold, (d) Gross sales price, (e) Cost or other basis plus expense of sale, (f) Gain (loss). Rows 4-6c.

Part III Tax on Certain Capital Gains. DOES NOT apply to current year sales. See instructions for further information.

Table with 6 columns: (a) Description of property, (b) Date acquired, (c) Date sold, (d) Gross sales price, (e) Cost or other basis plus expense of sale, (f) Gain (loss). Rows 7-15, shaded.

Part IV Tax on Built-In Gains. See instructions before completing this part.

Table with 6 columns: (a) Description of property, (b) Date acquired, (c) Date sold, (d) Gross sales price, (e) Cost or other basis plus expense of sale, (f) Gain (loss). Rows 16-21.

Part V Net Capital Gains (Losses)

Combine amounts on Part I, line 3a and Part II, line 6a. Enter here and on Form 100S, Side 1, line 4

SECTION B - 1.5% Tax on Capital Gains

Part I Short-Term Capital Gains and Losses - Assets Held One Year or Less. Use additional sheet(s) if necessary.

Table with 6 columns: (a) Description of property, (b) Date acquired, (c) Date sold, (d) Gross sales price, (e) Cost or other basis plus expense of sale, (f) Gain (loss). Rows 1-3.

Part II Long-Term Capital Gains and Losses - Assets Held More Than One Year. Use additional sheet(s) if necessary.

Table with 6 columns: (a) Description of property, (b) Date acquired, (c) Date sold, (d) Gross sales price, (e) Cost or other basis plus expense of sale, (f) Gain (loss). Rows 4-10.

# 2001 S Corporation Dividend Income Deduction

# H (100S)

See instructions for Schedule H (100S). Use and attach additional sheets if necessary.

### Part I Elimination of Intercompany Dividends (R&TC Section 25106)

(a) Dividend payer	(b) Dividend payee	(c) Total amount of dividends received	(d) Amount that qualifies for 100% elimination	(e) Amount from column (d) paid out of current year E&P	(f) Amount from column (d) paid out of prior year E&P	(g) Balance column (c) minus column (d)
1						
2						
3						
4						
5						
6						
7 Total amounts in each column. Enter amount from Part I, column (d) on Form 100S, Side 1, line 9						

### Part II Deduction for Dividends Paid by a Corporation Taxed by California (R&TC Section 24402)

(a) Dividend payer	(b) Dividends paid by CA taxpayer (See instructions)	(c) FEIN or California corporation no. of dividend payer	(d) Percentage of ownership of dividend payer	(e) Limitation percentage (See instructions)	(f) Percentage of dividends deductible	(g) Deductible dividends columns (b)X(e)X(f)
1						
2						
3						
4						
5						
6						
7 Total amounts in columns (b) and (g)						

### Part III Deduction for Dividends Paid to a California Corporation by an Insurance Company (R&TC Section 24410)

(a) Dividend payer	(b) Dividend payee	(c) California corporation no. of dividend payee	(d) Percentage of ownership of dividend payer	(e) Amount of qualified insurance dividends (See instructions)	(f) Apportionment factors of insurance company	(g) Deductible dividends column (e) X column (f)
1						
2						
3						
4						
5						
6						
7 Total amounts in columns (e) and (g)						
8 Add amounts from Part II, column (g) and Part III, column (g), enter the result here and add to amount in Part I, line 7, column (d). Enter the result on Form 100S, Side 1, line 9						

### Part IV Deduction for Dividends Paid to a Fully Included Member of a Water's-Edge Combined Report (R&TC Section 24411)

(Foreign dividends paid by partially included members of a water's-edge combined report cannot be computed on this schedule.)

(a) Dividend payer	(b) Percentage of ownership of dividend payer	(c) Member of water's-edge combined reporting group dividend was paid to (payee)	(d) Amount of qualified dividends received by payee (See instructions)	(e) Amount from col. (d) paid out of current year E&P	(f) Amount from col. (d) paid out of prior year E&P	(g) Deductible dividends column (d) X .75
1						
2						
3						
4						
5						
6						
7 Total amount in column (g). Enter total from Part IV, column (g) on Form 100S, Side 1, line 10						

# Instructions for Schedule H (100S)

## S Corporation Dividend Income Deduction

### What's New

In *Ceridian v. Franchise Tax Board* (2000) 85 Cal.App.4th 875, the Court of Appeal has determined that Section 24410, which provides a limited deduction for dividends received from an insurance company, is unconstitutional. The court did not address what effect its holding would have on other taxpayers. The matter has been brought to the attention of the members of the Franchise Tax Board, but as of the publication date of this form, no action has been taken. Taxpayers should monitor our Website at: [www.ftb.ca.gov](http://www.ftb.ca.gov) for further guidance on this matter.

### Specific Line Instructions

S corporations may claim a deduction for dividends paid by a corporation taxed by California on earnings from which the dividends are paid.

#### Part I

##### Intercompany Dividends

Dividends paid to an electing S corporation from earnings and profits accumulated during any taxable year in which the dividend payer was included in the combined report, which included the dividend payee, qualify for the 100% intercompany dividend elimination.

Complete Schedule H (100S), Part I. Enter the total of Part I, column (d) on Form 100S, Side 1, line 9.

#### Part II and Part III

##### Other Dividends

To obtain the deductible percentage of a dividend (Schedule H (100S), Part II, column (f)) you may:

1. Visit our Website at [www.ftb.ca.gov](http://www.ftb.ca.gov) and click on other FTB Information for the Deductible Dividend Report as shown on the net, or
2. Send a written request showing the complete name of the dividend paying corporation to:

DEDUCTIBLE DIVIDENDS  
FRANCHISE TAX BOARD  
PO BOX 1468  
SACRAMENTO CA 95812-1468

Allow six weeks for a written reply.

3. Or call the FTB at the phone numbers listed on page 47 of this booklet.

Enter this percentage amount on Schedule H (100S), Part II, column (f).

To figure the amount of dividends to enter on Form 100S, line 9, compare Schedule H (100S) Part II and Part III.

To complete Part II:

1. Fill in columns (a) through (c).

For Part II, column (b), if any portion of a dividend also qualifies for the intercom-

pany elimination in Part I, enter the balance from Part I, column (g) in Part II, column (b).

2. Enter the corporation's percentage of ownership of the dividend paying corporation on Schedule H (100S), column (d).
3. Determine the limitation percentage and enter it on Schedule H (100S), Part II, column (e). Refer to the ownership percentages in column (d) and the limitation percentages below to determine the applicable limitation percentage.

If the dividend paying corporation is:	Then the limitation percentage is:
Less than 20% owned . . . . .	70%
At least 20% but not more than 50% owned . . . . .	80%
More than 50% owned . . . . .	100%

4. Multiply the dividend received (column (b)) by the limitation percentage (column (e)).
5. Multiply the result of line 4 by the deductible percentage (column (f)).
6. Enter the result of line 5 in column (g).

To complete Part III:

1. Follow Part II, Steps 1 and 2 above.

For Part III, column (e), if any portion of a dividend also qualifies for the intercompany elimination in Part I, enter the balance from Part I, column (g) in Part III, column (e).

2. Enter in column (e) the amount of qualified insurance dividends received from Schedule H (100S), Part I, column (g) for which a deduction under Part I and Part II has not been claimed.
3. Enter the apportionment factors for the insurance corporation in column (f).

**Note:** The apportionment factors used in this computation are different from the apportionment factors used for Schedule R apportionment. See R&TC Section 24410 for more information.

4. Multiply the amount in column (e) by the amount in column (f) and enter the result in column (g).

Total the amounts on Schedule H (100S), Part II, column (g), line 7 and Part III, column (g), line 7. Enter the result on Part III, column (g), line 8 and on Form 100S, Side 1, line 9.

Dividends received from a corporation, in which the S corporation owns less than 80% of the stock are considered passive investment income.

#### Part IV

##### Water's-Edge Dividends

California R&TC Section 24411 allows for a 75% deduction of a portion of the dividends received and included in the water's-edge return. For taxable years beginning on or after January 1, 1998, dividends received from banks qualify for the water's-edge dividend

deduction. Both business and nonbusiness dividends qualify for the dividend deduction. The allowable business dividend deduction is determined by multiplying the total dividend deduction (business and nonbusiness) by the ratio of business dividends to total dividends. The remaining dividend deduction is the nonbusiness dividend deduction.

In no event will a R&TC Section 24411 deduction be allowed with respect to a dividend for which a deduction was allowed under R&TC Sections 24402 or 24410 or which was eliminated under R&TC Section 25106.

Current year qualifying dividends are dividends received by any current member of the water's-edge group from a corporation (regardless of the place of incorporation) if:

- The average of the payer's property, payroll, and sales factors within the U.S. is less than 20%; and
- More than 50% of the total combined voting power of all classes of voting stock is owned directly or indirectly by a member of the water's-edge group at the time the dividend is received.

##### Interest Expense Deduction

For taxable years beginning on or after January 1, 1997, the amount of interest expense incurred for purposes of foreign investments that must be offset against deductible foreign dividends must be computed by multiplying the amount of interest expense by the same percentage used to compute the deductible portion of the qualifying foreign dividends.

The payer need not be in a unitary relationship with the recipient or any other member of the water's-edge group.

Intercompany dividends received within the current year's water's-edge group should be eliminated pursuant to R&TC Section 25106 before computing the dividend deduction.

A deduction of 100% is provided for dividends derived from certain foreign construction projects. A construction project is defined as an activity attributable to an alteration of land or any improvement thereto. The construction project, the location of which is not subject to the taxpayers' control, must be undertaken for an entity, including a governmental entity, that is not affiliated with the water's-edge group. For more information, see R&TC Section 24411 and Form 100W, California Corporation Franchise or Income Tax Booklet — Water's-Edge Filers.

Complete Schedule H (100S), Part IV and enter the total of column (g) on Form 100S, Side 1, line 10. For Part IV, column (d), if any portion of a dividend also qualifies for the intercompany elimination in Part I, enter the balance from Part I, column (g) in Part IV, column (d).

For use by an S corporation and its shareholders only.

For calendar year 2001 or fiscal year beginning month \_\_\_\_\_ day \_\_\_\_\_ year 2001, and ending month \_\_\_\_\_ day \_\_\_\_\_ year \_\_\_\_\_

Shareholder's identifying number _____	California corporation number _____
Shareholder's name, address, and ZIP Code _____	Corporation's name, address, and ZIP Code _____

- A** Shareholder's percentage of stock ownership at year end ..... ● \_\_\_\_\_ %
- B** Tax shelter registration number \_\_\_\_\_ Type: \_\_\_\_\_
- C** Check here if this is: ● **(1)**  A final Schedule K-1    **(2)**  An amended Schedule K-1
- D** What type of entity is this shareholder? ..... ● **(1)**  Individual    **(2)**  Estate/Trust    **(3)**  Qualified Exempt Organization
- E** Is this shareholder a nonresident of California? ..... ►  Yes ●  No

**Caution:** Refer to the shareholder's instructions for Schedule K-1 (100S) before entering information from this schedule on your California tax return.

	(a) Pro-rata share items	(b) Amount from federal Schedule K-1 (1120S)	(c) California adjustment	(d) Total amounts using California law. Combine (b) and (c) where applicable	(e) California source amounts and credits
<b>Income (Loss)</b>	<b>1</b> Ordinary income (loss) from trade or business activities .....			●	▶
	<b>2</b> Net income (loss) from rental real estate activities ..			●	▶
	<b>3</b> Net income (loss) from other rental activities .....				
	<b>4</b> Portfolio income (loss):				
	<b>a</b> Interest .....			●	▶
	<b>b</b> Dividends .....			●	▶
	<b>c</b> Royalties .....			●	▶
<b>d</b> Net short-term capital gain (loss) .....			●	▶	
<b>e</b> Net long-term capital gain (loss) .....			●	▶	
<b>f</b> Other portfolio income (loss). Attach schedule ...			●	▶	
<b>5</b> Net gain (loss) under IRC Section 1231 (other than due to casualty or theft) .....			●	▶	
<b>6</b> Other income (loss). Attach schedule .....			●	▶	
<b>Deductions</b>	<b>7</b> Charitable contributions .....				
	<b>8</b> Expense deduction for recovery property (R&TC Sections 17267.2, 17267.6, and 17268, and IRC Section 179). Attach schedule .....				
	<b>9</b> Deductions related to portfolio income (loss). Attach schedule .....				
	<b>10</b> Other deductions. Attach schedule .....				
<b>Investment Interest</b>	<b>11 a</b> Interest expense on investment debts .....			●	▶
	<b>b (1)</b> Investment income included on line 4a, line 4b, line 4c, and line 4f above .....				
	<b>(2)</b> Investment expenses included on line 9 above .....				
<b>Credits</b>	<b>12 a</b> Low-income housing credit. See instructions. Attach schedule .....			●	▶
	<b>b</b> Credits related to rental real estate activities other than on line 12(a). Attach schedule .....			●	▶
	<b>c</b> Credits related to other rental activities. See instructions. Attach schedule .....			●	▶
	<b>13</b> Other credits. Attach schedule .....			●	▶

	(a) Pro-rata share items	(b) Amount from federal Schedule K-1 (1120S)	(c) California adjustment	(d) Total amounts using California law. Combine (b) and (c) where applicable	(e) California source amounts and credits	
<b>Adjustments and Tax Preference Items</b>	<b>14 a</b> Depreciation adjustment on property placed in service after 12/31/86 .....					
	<b>b</b> Adjusted gain or loss .....					
	<b>c</b> Depletion (other than oil and gas) .....					
	<b>d (1)</b> Gross income from oil, gas, and geothermal properties .....					
	<b>(2)</b> Deductions allocable to oil, gas, and geothermal properties .....					
	<b>e</b> Other adjustments and tax preference items. Attach schedule .....					
<b>Other State Taxes</b>	<b>15 a</b> Type of income _____					
	<b>b</b> Name of state _____					
	<b>c</b> Total gross income from sources outside California. Attach schedule .....					
	<b>d</b> Total applicable deductions and losses. Attach schedule .....					
	<b>e</b> Total other state taxes. Check one: <input type="checkbox"/> Paid <input type="checkbox"/> Accrued .....				●	
<b>Other</b>	<b>16 a</b> Total expenditures to which an IRC Section 59(e) election may apply .....					
	<b>b</b> Type of expenditures _____					
	<b>17</b> Tax-exempt interest income .....					
	<b>18</b> Other tax-exempt income .....					
	<b>19</b> Nondeductible expenses .....					
	<b>20</b> Total taxable dividend distribution paid from accumulated earnings and profits .....			●		▶
	<b>21</b> Property distributions (including cash) other than dividend distributions reported to you on federal Form 1099-DIV .....			●		▶
<b>22</b> Amount of loan repayments for "Loans from Shareholders" .....			●		▶	
<b>Supplemental Information</b>	<b>23</b> Supplemental information that is required to be reported separately to each shareholder. See instructions. Attach additional sheet(s) if necessary.					
	<b>Table 1</b> — Each shareholder's share of nonbusiness income from intangibles. See instructions.					
	Interest	\$ _____	Royalties	\$ _____	Dividends	\$ _____
	1231 Gains/Losses	\$ _____	Capital Gains/Losses	\$ _____	Other	\$ _____
	<b>FOR USE BY APPORTIONING UNITARY SHAREHOLDERS ONLY</b>					
	<b>Table 2</b> — Unitary shareholder's pro-rata share of business income and factors — See instructions.					
	A. Shareholder's share of the S corporation's business income \$ _____					
B. Shareholder's share of the nonbusiness income from real and tangible property sourced or allocable to California:						
Capital Gains/Losses	\$ _____	Rents/Royalties	\$ _____			
1231 Gains/Losses	\$ _____	Other	\$ _____			
C. Shareholder's share of the S corporation's property, payroll, and sales:						
<b>Factors</b>		<b>Total within and outside California</b>		<b>Total within California</b>		
Property: Beginning		\$		\$		
Ending		\$		\$		
Annual Rent Expense		\$		\$		
Payroll		\$		\$		
Sales		\$		\$		

# Shareholder's Instructions for Schedule K-1 (100S)

## For S Corporation Shareholder's Use Only

References in these instructions are to the Internal Revenue Code (IRC) as of January 1, 1998, and to the California Revenue and Taxation Code (R&TC).

### What's New:

- A shareholder's pro-rata share of income from an S-corporation is treated the same as partner's distributive share of income from a partnership. The income is treated as if it was realized directly from the source. Income from a California sources is subject to California tax law. *Valentino et. al. v. Franchise Tax Board* (CtApp. March 23, 2001) 105 Cal. Rptr. 2d 304.
- For the 2001 tax year, a new form is available for nonresidents and part-year residents: Form 540NR, California Nonresident or Part-year Resident Income Tax Return (Short Form). The Short Form 540NR is for nonresident and part-year taxpayers who have limited income sources and deductions. The Form 540NR name has been changed to Form 540NR, California Nonresident or Part-year Resident Income Tax Return (Long Form). References to the Form 540NR in this form mean the Long Form 540NR.

### General Information

In general, California law conforms to the Internal Revenue Code (IRC) as of January 1, 1998. However, there are continuing differences between California and federal law. California has not conformed to most of the changes made to the IRC by the federal Internal Revenue Service Restructuring and Reform Act of 1998 (Public Law 105-206) and the Ticket to Work and Work Incentives Improvement Act of 1999 (Public Law 106-170). California has not conformed to any of the changes made by the Tax and Trade Relief Extension Act of 1998 (Public Law 105-277), the Miscellaneous Trade and Technical Corrections Act of 1999 (Public Law 106-36), the FSC Repeal and Extraterritorial Income Exclusion Act of 2000 (Public Law 106-519), the Consolidated Appropriations Act of 2001 (Public Law 106-554), and the Economic Growth and Tax Relief Reconciliation Act of 2001 (Public Law 107-16).

### A Purpose

The S corporation uses Schedule K-1 (100S) to report your share of the S corporation's income, deductions, credits, etc. Information from the Schedule K-1 (100S) should be used to complete your California tax return. Please keep a copy of Schedule K-1 for your records. However, do not file the schedule with your California tax return.

Although the S corporation is subject to various taxes, you are liable for the income tax on your share of the S corporation's income, whether or not distributed, and you must include your share on your tax return.

The amount of losses and deductions that you may claim on your tax return may be less than the amount reported on Schedule K-1 (100S). Generally, the amount of losses and deductions you may claim is limited to your basis in the S corporation stock, debt owed to you by the S corporation, and the amount for which you are

considered at-risk. Also, if the S corporation has losses, deductions, or credits from a passive activity, you must apply the passive activity rules. It is your responsibility to consider and apply any applicable limitations. See General Information C, Limitations on Losses, Deductions, and Credits. Use these instructions to help you report the items shown on Schedule K-1 (100S) on your California tax return.

For the line items where "attach schedule" appears, the S corporation should have provided additional information applicable to that line or the S corporation should have made an entry on Schedule K-1 (100S) Side 2, line 23.

Nonresident shareholders of an S corporation that is doing business in California may qualify to file a group nonresident tax return on Form 540NR, California Nonresident or Part-Year Resident Income Tax Return. For more information on filing a group nonresident tax return, get FTB Pub. 1067, Guidelines for Filing a Group Form 540NR.

### B Reporting Information from Columns (c), (d), and (e)

#### Inconsistent treatment of items

Generally, shareholders must report IRC subchapter S items shown on their Schedule K-1 (100S), and any attached schedules, the same way the corporation treated the items on its tax return. If the treatment on a shareholder's original or amended tax return is inconsistent with the corporation's treatment, or if the corporation has not filed a tax return, you must attach a statement with your original or amended tax return to identify and explain any inconsistency or to note that a corporate tax return has not been filed. If a shareholder is required to attach this statement but fails to do so, the shareholder may be subject to an accuracy related penalty.

#### Line 1 through Line 22

If you are an individual shareholder, take the amounts in column (c) that are from nonpassive activities and enter these amounts on the appropriate California form or schedule as explained in these instructions.

Report the amounts in column (d) or column (e) that are from passive activities on the California form or schedule where they are normally reported. Bring the total amounts figured on the appropriate California form or schedule to form FTB 3801, Passive Activity Loss Limitations, to figure the amount of your passive activity loss limitation. Then transfer the passive activity loss back to the form or schedule it is normally reported on to figure your California adjustment amount. Enter this adjustment amount on the corresponding line of Schedule CA (540 or 540NR), California Adjustments, or Form 541, California Fiduciary Income Tax Return.

If there is no California schedule or form to figure your passive activity loss adjustment amount on (i.e., rental loss from passive activities), you may figure the adjustment amount on the California

Adjustment Worksheet in the instructions for form FTB 3801. Enter the total of your adjustments from all passive activities from line 1 and line 2 of this worksheet on Schedule CA (540 or 540NR), as applicable.

If you have losses, deductions, credits, etc., from a prior year that were not deductible or usable because of certain limitations, such as the at-risk rules, these carryforward losses, deductions, and credits may be taken into account in determining your net income, loss, etc., for this year. However, do not combine the prior year amounts with any amounts shown on this Schedule K-1 (100S) to get a net figure to report on any supporting schedules, statements, or forms attached to your tax return. Instead, report the amounts on an attached schedule, statement, or form on a year-by-year basis.

### C Limitations on Losses, Deductions, and Credits

The amounts shown on line 1 through line 3 reflect your share of income or loss from the S corporation's business or rental operations without reference to your limitations on losses or adjustments that may be required because of:

- The adjusted basis of your S corporation ownership interest per IRC Section 1366(d);
- The amount for which you are at-risk as determined under IRC Section 465; and
- The passive activity limitations of IRC Section 469.

See the instructions for federal Schedule K-1 (Form 1120S) line 1 through line 3 for more information.

#### Basis rules

Generally, you may not claim your share of the S corporation loss (including capital loss) that is greater than the adjusted basis of your shareholder interest at the end of the S corporation's taxable year.

Basis is increased by:

1. All income (including tax-exempt income) reported on Schedule K-1 (100S).
2. Money and adjusted basis of property contributed to the corporation.
3. The excess of the deduction for depletion over the adjusted basis of the property subject to depletion.

Basis is decreased by:

1. Fair market value of property distributions (including cash) made by the corporation (excluding dividend distributions reported on Form 1099-DIV and distributions in excess of basis) reported on Schedule K-1 (100S), line 21.
2. All losses and deductions (including nondeductible expenses) reported on Schedule K-1 (100S).

These items are not a complete list of factors that determine basis. For example, please see Treas. Reg. Section 1.1367-1.

### At-risk rules

Generally, if you have: (1) a loss or other deduction from an activity carried on as a trade or business or for the production of income by the corporation; and (2) amounts in the activity for which you are not at-risk, you will have to complete federal Form 6198, At-Risk Limitations, to figure the allowable loss to report on your tax return. For California purposes, you must complete federal Form 6198 using California amounts.

The at-risk rules generally limit the amount of loss (including loss on disposition of assets) and other deductions (such as IRC Section 179 or R&TC Sections 17267.2, 17267.6, and 17268 deductions) that you may claim to the amount you could actually lose in the activity. See the instructions for federal Schedule K-1 (Form 1120S), At-Risk Limitations, for more information.

### Passive activity limitations

Generally, California tax law conforms to federal IRC Section 469 rules that limit the deduction of certain losses and credits.

These rules apply to shareholders who:

- Are individuals, estates, or trusts; and
- Have a loss or credit from a passive activity.

A passive activity is generally a rental activity or a trade or business activity in which the shareholder does not materially participate.

If you have a loss or deductions from a passive activity, you will need to complete form FTB 3801 to figure the allowable amounts to report on your individual tax return. You will also need to complete form FTB 3801 if you have passive activity income from this S corporation and passive activity loss or deduction from another source.

The amounts reported on Schedule K-1 (100S), line 2 and line 3 are from rental activities of the S corporation and are generally passive activity income (loss) to all shareholders.

There is an exception to this rule for losses incurred by qualified investors in qualified low-income housing projects. The S corporation will identify any of these qualified amounts on an attachment for line 2.

**Note:** Passive activity credits are also limited to passive income. See the instructions for line 13.

**Caution:** During 1993, the U.S. Congress made changes to the passive activity loss provisions of the IRC relating to real estate professionals. California has not conformed to those changes.

## D California Adjustment — Column (c)

Use this column to account for your proportionate share of the differences in the computation of federal and California income.

The most common adjustment items are:

- California minimum franchise tax;
- Depreciation expense due to different basis of the assets or depreciation method used;
- Gain or loss on sale of assets due to the effects of different depreciation methods or basis; and
- Government bond interest income:

- a) U.S. bond interest is taxable for federal purposes but not for California purposes; and
- b) State bond interest (other than from California bonds) is taxable for California purposes but not for federal purposes.

## E Total amounts using California law — column (d) and California source amounts and credits — column (e)

Shareholders who are California residents will use amounts shown in column (d) because California resident individuals are subject to personal income tax on all income from whatever source derived (R&TC Section 17041). Nonresident shareholders who do not conduct a trade or business that is unitary with the S corporation should use the amounts in column (c), column (d) (for total income purposes), column (e) (for California source income purposes), and Table 1. If the nonresident shareholder conducts a unitary business with the S corporation, data in column (e) should not be used. Instead, the shareholder must combine its share of the S corporation's income with the income from its trade or business and apportion that income using an apportionment percentage consisting of a combination of the factors from its trade or business and the shareholder's share of the factors from the S corporation from Table 2. Amounts in Table 1 should be sourced to the residency or commercial domicile of the shareholder.

## Specific Line Instructions

### Income (Loss)

#### Line 1 — Ordinary income (loss) from trade or business activities

The amount reported on line 1, column (d) or column (e) is your share of the ordinary income (loss) from the trade or business activities of the S corporation. Generally, where you report this amount on Form 540, Form 540NR, or Form 541 depends on whether or not the amount is from an activity that is a passive activity to you.

If, in addition to this passive activity income, you have a passive activity loss from this S corporation or from any other source, report the line 1, column (d) or column (e) income on form FTB 3801.

If a loss is reported on line 1, column (d) or column (e), report the loss on the applicable line of form FTB 3801 to determine how much of the loss is allowable.

#### Line 2 — Net income (loss) from rental real estate activities

Generally, the income (loss) reported on line 2, column (d) or column (e), is a passive activity amount to all shareholders. However, there is an exception for losses from a qualified low-income housing project. The loss limitations do not apply to qualified investors in a qualified low-income housing project. The S corporation will have attached a schedule for line 2 to

identify such amounts, if applicable. Enter the California adjustment amount from column (c) on Schedule CA (540 or 540NR), as applicable.

Use the following instructions to determine where to enter a line 2 amount.

- If you have a loss on line 2, column (d) or column (e) (other than a qualified low-income housing project loss), enter this passive activity loss on the applicable line of form FTB 3801 to determine how much of the loss is allowable.

**Note:** If you are a qualified investor reporting a qualified low-income housing project loss, enter the California adjustment amount from column (c) directly on Schedule CA (540 or 540NR), as applicable.

- If you have income on line 2, column (d) or column (e) and no passive losses, enter the California adjustment from column (c) on Schedule CA (540 or 540NR), as applicable.

#### Line 3 — Net income (loss) from other rental activities

The amount on line 3, column (d) or column (e) is a passive activity amount for all shareholders.

- If line 3, column (d) or column (e) is a loss, enter the loss on the applicable line of form FTB 3801.
- If income is reported on line 3, column (d) or column (e) and you have no passive losses, enter the California adjustment from column (c) on Schedule CA (540 or 540NR), as applicable.

#### Line 4 — Portfolio income (loss)

Income (loss) referred to as "portfolio" income (loss) in these instructions is not part of a passive activity subject to the rules of IRC Section 469. Portfolio income includes income not derived in the ordinary course of a trade or business from interest, dividends, annuities, or royalties and gain (loss) on the sale of property that produces these types of income or is held for investment. If you have amounts on Schedule K-1 (100S), line 4a through line 4f, report these amounts as follows:

- Enter line 4a, column (c) and/or column (e) on Schedule CA (540 or 540NR), line 8, whichever column is applicable;
- Enter line 4b, column (c) and/or column (e) on Schedule CA (540 or 540NR), line 9, whichever column is applicable;
- Enter line 4c, column (c) and/or column (e) on Schedule CA (540 or 540NR), line 17, whichever column is applicable;
- Enter line 4d and line 4e, column (d) or column (e) on Schedule D; and
- Enter line 4f, column (d) or column (e) on the applicable schedule.

**Caution:** Generally, amounts reported on line 4d and line 4e are gains or losses attributable to the disposition of property held for investment and are therefore classified as portfolio income (loss). If, however, an amount reported on line 4d or line 4e, column (d) or column (e), is a passive activity amount, the S corporation should identify the amount.

The S corporation uses line 4f, column (d) or column (e), to report portfolio income other than interest, dividend, royalty, and capital gain (loss) income. A statement will be attached to

tell you what kind of portfolio income is reported on line 4f, column (d) or column (e).

#### **Line 5 – Net gain (loss)**

If the amount on line 5 relates to a rental activity, the IRC Section 1231 gain (loss) is a passive activity amount.

- If the amount is not a passive activity amount to you, report it on Schedule D-1, Sales of Business Property, line 2, column (g). You do not have to complete the information called for in column (b) through column (f). Write "From Schedule K-1 (100S)" across these columns.
- If a gain is reported on line 5, column (d) or column (e), and it is a passive activity amount to you, report the gain on Schedule D-1, line 2, column (g), and refer to "Passive Loss Limitations" in the instructions for Schedule D-1.
- If a loss is reported on line 5, column (d) or column (e) and it is a passive activity amount to you, report the loss on Schedule D-1, line 2, column (g), and refer to "Passive Loss Limitations" in the instructions for Schedule D-1. You will need to use form FTB 3801 to determine how much of the loss is allowed on Schedule D-1.

#### **Line 6 – Other income (loss)**

Amounts on this line are other items of income, gain, or loss not included on line 1 through line 5. The S corporation should give you a description of your share for each of these items.

Report income or gain items that are passive activity amounts to you as instructed below. If, in addition to this passive activity income or gain, you have passive activity losses from any other source, also report the passive activity income or gain on form FTB 3801.

Line 6 items may include the following:

- S corporation gains from the disposition of farm recapture property (refer to Schedule D-1) and other items to which IRC Section 1252 applies;
- Recovery of bad debts, prior taxes, and delinquency amounts (IRC Section 111). Report the amount from line 6, column (c), on Schedule CA (540 or 540NR), line 21, whichever column is applicable;
- Gains and losses from gambling (IRC Section 165(d));
- Any income, gain, or loss to the S corporation under IRC Section 751(b) from a partnership. Report this amount on Schedule D-1, line 10;
- Specially allocated ordinary gain (loss) from a partnership. Report this amount on Schedule D-1, line 10;
- Net gain (loss) from involuntary conversions due to casualty or theft. The S corporation will give you a schedule that shows the California amounts to be entered on federal Form 4684, Casualties and Thefts, line 34, column (b)(i), column (b)(ii), and column (c);
- Net short-term capital gain or loss, net long-term capital gain or loss, gain or loss from Schedule D (100S) that is **not** portfolio

income (e.g., gain or loss from the disposition of nondepreciable personal property used in a trade or business activity of the S corporation);

- Any new gain or loss from IRC Section 1256 contracts; and
- Eligible gain from the sale or exchange of qualified small business stock (as defined in R&TC Section 18152.5). The S corporation should also give you the name of the corporation that issued the stock and your pro-rata share of the basis of that stock.

### **Deductions**

#### **Line 7 – Charitable contributions**

The S corporation will give you a schedule that shows which contributions were subject to the 50%, 30%, and 20% limitations. Refer to the federal instructions for Form 1040 for more information.

If there is an amount on Schedule K-1 (100S), line 7, column (c), enter this amount on Schedule CA (540 or 540NR), line 38.

#### **Line 8 – Expense deduction for recovery property**

The maximum amount of expense deduction for recovery property (IRC Section 179 deduction) that you may claim from all sources is \$24,000. The S corporation will give you information on your share of the cost of the S corporation's IRC Section 179 property so that you can compute this limitation. Your IRC Section 179 deduction is also limited to your taxable income from all your trades or businesses. See form FTB 3885A, Depreciation and Amortization Adjustments, and federal Publication 534, Depreciating Property Placed in Service Before 1987, for more information.

If the S corporation reported an EZ, TTA, or LAMBRA business expense deduction on this line from R&TC Sections 17267.2, 17267.6, or 17268, complete form FTB 3805Z, form FTB 3809, or form FTB 3807, to report your pro-rata share.

#### **Line 9 – Deductions related to portfolio income (loss)**

Amounts entered on this line are the expenses (other than investment interest expense and expenses from a REMIC) paid or incurred to produce portfolio income. If you have an amount on Schedule K-1 (100S), line 9, column (c), enter this amount on Schedule CA (540 or 540NR), line 37. However, if any of the line 9 amount should not be reported on Schedule CA (540 or 540NR), the S corporation will identify that amount for you.

#### **Line 10 – Other deductions**

Amounts on this line are other deductions not included on line 7 through line 9. If there is an amount on Schedule K-1 (100S), line 10, column (c), enter this amount on the applicable line of Schedule CA (540 or 540NR).

### **Investment Interest**

#### **Line 11a and Line 11b**

If the S corporation paid or accrued interest on debts it incurred to buy or hold investment property, the amount of interest you can deduct may be limited.

For more information and the special provisions that apply to investment interest expense, get form FTB 3526, Investment Interest Expense Deduction, and federal Publication 550, Investment Income and Expenses.

#### **Line 11a – Interest expense on investment debts**

Enter the amount from column (d) or column (e) on form FTB 3526 along with your investment interest expense from other sources. Form FTB 3526 will help you determine how much of your total investment interest is deductible.

#### **Line 11b(1) and Line 11b(2) – Investment income and investment expenses**

Use the column (d) or column (e) amounts on these lines to determine the amount to enter on form FTB 3526, line 4.

**Caution:** The amounts shown on line 11b(1) and line 11b(2) include only investment income and expenses included on lines 4a, 4b, 4c, 4f, and line 9 of this Schedule K-1 (100S). The S corporation should attach a schedule that shows you the amount of any investment income and expenses included in any other lines of your Schedule K-1 (100S). Use these amounts, if any, to adjust line 11b(1) and line 11b(2) to determine your total investment income and total investment expenses from this S corporation. Combine these totals with investment income and expenses from all other sources to determine the amount to enter on form FTB 3526, line 4.

### **Credits**

The S corporation must provide you the information needed to compute a credit allowable on your tax return.

#### **Line 12a – Low-income housing credit**

Your share of the S corporation's low-income housing credit is shown on line 12a, column (d) or column (e). Any available credit is entered on form FTB 3521, Low-Income Housing Credit. To claim this credit, attach a copy of form FTB 3521 to your tax return.

**Caution:** You may not claim the low-income housing credit on any qualified low-income housing project for which any person was allowed any benefit under Section 502 of the federal Tax Reform Act of 1986. Also, the passive activity credit limitations of IRC Section 469 may limit the amount of credit you may take. Get form FTB 3801-CR, Passive Activity Credit Limitations, to figure the amount of credit that may be limited under the passive activity rules.

For more information, see the instructions for line 13.

#### **Line 12b – Credits related to rental real estate activities**

If applicable, the S corporation may use this line, through an attached schedule, to give you the information you need to compute credits related to rental real estate activities other than the low-income housing credit.

For more information, see the instructions for line 13.

### Line 12c – Credits related to other rental activities

If applicable, the S corporation will use this line, through an attached schedule, to give you the information you need to compute credits related to rental activities other than rental real estate activities.

For more information, see the instructions for line 13.

### Line 13 – Other credits

If applicable, the S corporation will use this line, through an attached schedule, to give you the information you need to compute credits related to a trade or business activity.

Credits that may be reported on line 12c or line 13 (depending on the type of activity they relate to) include but are not limited to:

- Enterprise Zone (EZ) hiring & sales or use tax credit (FTB 3805Z);
- Targeted Tax Area (TTA) hiring & sales or use tax credit (FTB 3809);
- Local Agency Military Base Recovery Area (LAMBRA) hiring & sales or use tax credit (FTB 3807);
- Research credit (FTB 3523);
- Manufacturers' investment credit (MIC) (FTB 3535); or
- Manufacturing Enhancement Area (MEA) hiring credit (FTB 3808).

**Note:** The pass-through rules of IRC Section 1366, the at-risk limitations of IRC Section 465, and the passive activity limitations of IRC Section 469 may limit the amount of credits that you may take. Credits on line 12 and line 13 may be passive activity credits to shareholders who do not materially participate in the activities of the S corporation.

Passive activity credits are limited to tax attributable to passive activities income. If you do not materially participate in the activity of the S corporation, get form FTB 3801-CR, Passive Activity Credit Limitations, to determine the amount of the credit you may take.

## Adjustments and Tax Preference Items

### Line 14a through Line 14e

Use the information reported on line 14a through line 14e (as well as adjustments and tax preference items from other sources) to prepare Schedule P (540, 540NR, or 541), Alternative Minimum Tax and Credit Limitations.

For more information, get federal Schedule K-1 (Form 1120S), instructions for Adjustments and Tax Preference Items.

## Other State Taxes

### Line 15a through Line 15e

You may claim a credit against your individual tax for your share of net income taxes paid by the S corporation to certain other states which either tax the corporation as an S corporation or do not recognize S corporation status. For purposes of this credit, net income taxes include your share of taxes on, according to, or measured by income.

Residents are taxed on their pro-rata share of all income and generally receive a credit for taxes paid to other states. Nonresidents and part-year

residents use column (e) for your pro-rata share of California source pass-through income.

For more information, get California Schedule S, Other State Tax Credit.

## Other

**Note:** Amounts on line 16a through line 22 may not necessarily be California source amounts. However, enter the same amount in column (e) as entered in column (d).

### Line 16a through Line 19

Refer to the instructions for federal Schedule K-1 (1120S).

### Line 20

The S corporation must issue a federal Form 1099-DIV to you for this distribution. Report this amount as a taxable dividend on your tax return.

### Line 21

Reduce your basis in stock of the S corporation by the fair market value of the distributions on line 21. If these distributions exceed your basis in stock, the excess is treated as gain from the sale or exchange of property and is reported on Schedule D.

### Line 22

If the line 22 payments are made on indebtedness with a reduced basis, the repayments result in income to you to the extent the repayments are more than the adjusted basis of the loan. See IRC Section 1367(b)(2) for information on reduction in basis of a loan and restoration of basis of a loan with a reduced basis. See federal Revenue Ruling 68-537, 1968-2 C.B. 372, for more information.

## Supplemental Information

### Line 23

The S corporation will provide supplemental information required to be reported to you on this line. If the S corporation is claiming tax benefits from an EZ, LAMBRA, TTA, or MEA, it will give you your pro-rata share of (1) business income apportioned to the EZ, LAMBRA, MEA, or TTA, and (2) business capital gains and losses included in (1) on this line. Get form FTB 3805Z, FTB 3807, FTB 3808, or FTB 3809 to claim any applicable credit or business expense deduction.

The S corporation may have provided an amount showing your proportionate interest in the S corporation's aggregate gross receipts, less returns and allowances on Schedule K-1 (100S), line 23. Legislation enacted in 1996 allows a **qualified taxpayer** to exclude from alternative minimum taxable income adjustments and items of tax preference attributable to any trade or business. A "qualified taxpayer" is defined as an individual, estate, or trust that:

- Is the owner of, or has an ownership interest in a trade or business; **and**
- Has aggregate gross receipts, less returns and allowances, of less than \$1,000,000 from **all** trades or businesses that the taxpayer is an owner of, or has an ownership interest in, in the amount of that taxpayer's proportionate interest in each trade or business.

"Aggregate gross receipts, less returns and allowances" means the sum of the gross receipts of the trades or businesses which you own and the proportionate interest of the gross receipts of the trades or businesses which you own and of pass-through entities in which you hold an interest.

"Proportionate interest" is defined as:

- In the case of a pass-through entity which reports a profit for the taxable year, your profit interest in the entity at the end of your taxable year.
- In the case of a pass-through entity which reports a loss for the taxable year, your loss interest in the entity at the end of your taxable year.
- In the case of a pass-through entity which is sold or liquidates during the taxable year, your capital account interest in the entity at the time of the sale or liquidation.

"Proportionate interest" includes an interest in a pass-through entity including a partnership, S corporation, regulated investment company, real estate investment trust, or real estate mortgage investment conduit.

For purposes of R&TC Section 17062(b)(4), "gross receipts" means the sum of gross receipts from the production of business income (within the meaning of subdivisions (a) and (c) of R&TC Section 25120) and the gross receipts from the production of nonbusiness income (within the meaning of subdivision (d) of R&TC Section 25120). "Proportionate interest" includes an interest in a pass-through entity. See R&TC Section 17062 for more information.

If the S corporation listed any credit recapture on this line, see your tax booklet for information on how to report the credit recapture.

### Table 1

The income data contained in Table 1 is not reflected in column (e) because the source of such income must be determined at the shareholder level. The shareholder must make a determination whether the nonbusiness intangible income item is from a California source.

Net nonbusiness income is computed by subtracting related nonbusiness expenses from the nonbusiness income.

### Table 2

If the shareholder and S corporation are engaged in a single unitary business, the shareholder's share of the S corporation's business income is entered on Table 2, Part A. The shareholder will then add that income to its own business income and apportion the combined business income.

The shareholder's share of the S corporation's payroll, property, and sales data is in Table 2, Part C. The business income in Table 2, Part A is combined with the taxpayer's other business income from the unitary business. The apportionment numerator and denominator data are added to the appropriate numerator and denominator of the shareholder's payroll, property, and sales factors.



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visit our Website:

[www.ftb.ca.gov](http://www.ftb.ca.gov)

# Instructions for Form FTB 3539

## Automatic Extension for Corporations and Exempt Organizations

### General Information

Use form FTB 3539 only if:

- You cannot file your 2001 California (CA) return by the original due date; and
- You owe tax for the 2001 taxable year.

Use the worksheet on the following page to determine if you owe tax.

- If you do not owe tax, there is nothing to file at this time and no need to complete or mail this voucher.
- If you owe tax, complete the voucher and mail it along with your check or money order to the Franchise Tax Board by the original due date of the CA tax return.

If a corporation, including real estate investment trusts (REITs), real estate mortgage investment conduits (REMICs), regulated investment companies (RICs), limited liability companies (LLCs) electing to be treated as corporations, or an exempt organization in good standing, cannot file its CA tax return by the original due date, a seven month extension to file will be allowed automatically without filing a written request. To qualify for the automatic extension, the corporation or exempt organization must file its CA tax return by the extended due date. Its powers, rights, and privileges must not be suspended or forfeited by the Franchise Tax Board (FTB) or the California Secretary of State (SOS) as of the original due date.

The extended due date for corporations is the 15th day of the 10th month following the close of the taxable year (fiscal year filers) or October 15, 2002 (calendar year filers). The extended due date for exempt organizations filing Form 199 or Form 109 is the 15th day of the 12th month following the close of the taxable year (fiscal year filers) or December 16, 2002 (calendar year filers).

The extended due date for an employee's trust defined in IRC Section 401(a) and an IRA filing Form 109 is the 15th day of the 11th month after the end of the taxable year (fiscal year filers) or November 15, 2002 (calendar year filers).

An extension of time to file the CA tax return is not an extension of time to pay the tax. To avoid late payment penalties and interest, 100% of the tax liability must be paid by the 15th day of the 3rd month (fiscal year corporations),

or the 15th day of the 5th month (fiscal year exempt organizations) following the close of the taxable year or March 15, 2002 (calendar year corporations), or May 15, 2002 (calendar year exempt organizations). Employees' trusts and IRAs must pay 100% of the tax liability by the 15th day of the 4th month after the end of the taxable year.

Save the completed worksheet as a permanent part of the corporation's or exempt organization's tax records along with a copy of the CA tax return.

### Electronic Funds Transfer (EFT)

Corporations or exempt organizations that meet certain requirements must remit all of their payments through EFT rather than by paper checks. Corporations or exempt organizations that remit an estimated tax payment or extension payment in excess of \$20,000 or that have a total tax liability in excess of \$80,000 must pay through EFT. The FTB will notify corporations or exempt organizations that are subject to this requirement. Those that wish to participate on a voluntary basis may do so. If you are an EFT taxpayer, **DO NOT USE THIS FORM**. For more information, go to our Website at: [www.ftb.ca.gov](http://www.ftb.ca.gov), call (800) 852-2753, or get FTB Pub. 3817, Electronic Funds Transfer Program Information Guide.

### Where to File

If tax is due and the corporation or exempt organization is not required to use EFT, attach a check or money order for the tax due to form FTB 3539. Write the California corporation number or FEIN and 2001 FTB 3539 on the check or money order. Mail only the voucher portion with the payment to:

FRANCHISE TAX BOARD  
PO BOX 942857  
SACRAMENTO CA 94257-0551

### Private Mailbox (PMB) Number

If the corporation leases a private mailbox (PMB) from a private business rather than a PO box from the United States Postal Service, include the box number in the field labeled "PMB no." in the address area.

--- DETACH HERE --- **IF NO PAYMENT IS DUE, DO NOT MAIL FORM** --- DETACH HERE --- ✂

(Calendar year corporations — Due March 15, 2002) (Fiscal year filers — see instructions)  
(Employees' trust and IRA — Due April 15, 2002)  
(Calendar year exempt organizations — Due May 15, 2002)

TAXABLE YEAR **2001** Payment Voucher for Automatic Extension for Corporations and Exempt Organizations CALIFORNIA FORM **3539 (CORP)**

For calendar year 2001 or fiscal year beginning month \_\_\_ day \_\_\_ year 2001, and ending month \_\_\_ day \_\_\_ year \_\_\_.

California corporation number	Federal employer identification number	Tax Due

Corporation/exempt organization name

Address	PMB no.	Type of form filed.
City	State	<input type="checkbox"/> Form 100/100W <input type="checkbox"/> Form 100S <input type="checkbox"/> Form 109 <input type="checkbox"/> Form 199
	ZIP Code	

IF NO PAYMENT IS DUE, DO NOT MAIL THIS FORM

## Penalties and Interest

- If the corporation or exempt organization fails to pay its total tax by the original due date, a late payment penalty plus interest will be added to the tax due.
- If the corporation or exempt organization does not file its CA tax return by the extended due date, or the corporation's powers, rights, and privileges have been suspended or forfeited by the FTB or the California SOS, as of the original due date, the automatic extension will not apply and a delinquency penalty plus interest will be assessed from the original due date of the CA tax return.

## Combined Reports

- If members of a combined unitary group have made or intend to make an election to file a combined unitary group single return, only the key corporation designated to file the return should submit form FTB 3539. The key corporation must include payment of at least the minimum franchise tax for each corporation of the combined unitary group that is subject to the franchise tax in California.
- If members of a combined unitary group intend to file separate returns with the FTB, each member must submit its own form FTB 3539 if there is an amount entered on line 3 of the Tax Payment Worksheet.

## Exempt Organizations

- **Form 100 filers:**  
The due dates for corporations also apply to the filing of Form 100, California Corporation Franchise or Income Tax Return, by political action committees and exempt homeowners' associations.  
Political action committees and exempt homeowners' associations that file Form 100 should not enter the minimum franchise tax on line 1 of the Tax Payment Worksheet.
- **Form 199 Filers:**  
Generally, Form 199, California Exempt Organization Annual Information Return, requires a \$10 filing fee to be paid with the return on the original or extended due date.  
Use form FTB 3539 only if paying the fee early. Enter the amount of the fee on line 3 of the Tax Payment Worksheet.
- **Form 109 Filers:**  
The due dates for filing Form 109, California Exempt Organization Business Income Return, depend on the type of organization filing the return. Employees' pension trusts and IRAs (including education IRAs) must file on or before the 15th day of the 4th month after the close of their taxable year. All other exempt organizations (except homeowners' associations and political organizations) must file on or before the 15th day of the 5th month after the close of their taxable year.

### TAX PAYMENT WORKSHEET FOR YOUR RECORDS

<b>1</b> Total tentative tax. Include alternative minimum tax if applicable. See instructions .....	<b>1</b>		
<b>2</b> Estimated tax payments including prior year overpayment applied as a credit .....	<b>2</b>		
<b>3</b> Tax Due. If line 2 is more than line 1, see instructions. If line 1 is more than line 2, subtract line 2 from line 1. Enter the result here and on form FTB 3539 .....	<b>3</b>		

## How to Complete the Tax Payment Worksheet

- Line 1** – Enter the total tentative tax, including the alternative minimum tax, if applicable, for the taxable year.
- If filing Form 100, Form 100W, or Form 100S and subject to franchise tax, the tentative tax may not be less than the minimum franchise tax and Qualified Subchapter S Subsidiary (QSub) annual tax (S corporations only).
  - If filing Form 100, Form 100W, or Form 100S, and subject to income tax, enter the amount of tax. Corporations subject to the income tax do not pay the minimum franchise tax.
  - If a corporation incorporates or qualifies to do business in California on or after January 1, 2001, the corporation will compute its tax liability for the first taxable year by multiplying its state net income by the appropriate tax rate and will not be subject to the minimum franchise tax. The corporation will become subject to minimum franchise tax beginning in its second taxable year.
  - If filing Form 109, enter the amount of tax. Form 109 filers are not subject to the minimum franchise tax.

**Line 2** – Enter the estimated tax payments, including prior year overpayment applied as a credit. S corporations include any QSub annual tax payments.

### Line 3

**Tax due.** If the amount on line 1 is more than the amount on line 2, then the corporation's or exempt organization's tentative tax is more than its payments and credits. The corporation or exempt organization has tax due.

Subtract line 2 from line 1. Enter this amount on line 3 and on form FTB 3539.

If the amount on line 2 is more than the amount on line 1, the payments and credits are more than the tentative tax. The corporation or exempt organization has no tax due. **DO NOT SEND THE PAYMENT VOUCHER.** The corporation or exempt organization will automatically qualify for an extension if the CA tax return is filed by the extended due date.

Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations – Corporations

Attach to your California tax return (Form 100, Form 100S, Form 100W, or Form 109).

Corporation name, California corporation number, FEIN, and checkboxes for C Corporation, S Corporation, Exempt Organization, and Limited Liability Company.

If the corporation previously filed California tax returns under another corporate name, enter the corporation name and California corporation number:

Note: If the corporation is included in a combined report of a unitary group, see instructions, General Information C.

PART I Computation of current year NOL. If you do not have a current year NOL, go to Part II.

Lines 1-7 for NOL computation: Net loss from Form 100, 2001 disaster loss, subtraction of disaster loss, business loss carryover, and General NOL.

PART II NOL carryover and disaster loss carryover limitations. See instructions.

Line 1: Net income (loss) and available balance for carryover.

Prior Year NOLs

Table with 8 columns: (a) Year of loss, (b) Code, (c) Type of NOL, (d) Initial loss, (e) Carryover from 2000, (f) Amount used in 2001, (g) Available balance, (h) Carryover to 2002.

Current Year NOLs

Table for Current Year NOLs with columns (a) through (h), including a row for 2001 with a 'DIS' type of NOL.

Type of NOL: General (GEN), New Business (NB), Eligible Small Business (ESB), Title 11 (T11), or Disaster (DIS).

PART III 2001 NOL deduction

Lines 1-3 for 2001 NOL deduction: Total amounts, disaster loss carryover deduction, and final deduction amount.

# 2001 Instructions for Form FTB 3805Q

## Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations – Corporations

References in these instructions are to the Internal Revenue Code (IRC) as of January 1, 1998, and to the California Revenue and Taxation Code (R&TC).

### What's New

The "Bank and Corporation Tax Law" (B&CTL) has been renamed as the "Corporation Tax Law" (CTL). The term "bank" in the title of the Bank and Corporation Tax Law is no longer needed because banks are included in the definition of a corporation.

For taxable years beginning on or after January 1, 2001, the Corporation Tax law would:

- Allow farmers a deduction for losses sustained due to Pierce's disease and its vectors. This loss will create a net operating loss, which can be carried forward for nine years at 100%. For more information, get form FTB 3805D.

Taxpayers are allowed special treatment for losses sustained as a result of the 2000 Napa Valley earthquakes. These disaster losses can be:

- Carried back to the 1999 taxable year (if an election is filed by the extended due date for the taxable year in which the disaster actually occurred) and carried forward at 100% for five years, then carried forward an additional ten years at 50%, or
- Claimed in 2000 taxable year and carried forward at 100% for five years, then carried forward an additional ten years at 55%.

### General Information

In general, California law conforms to the Internal Revenue Code (IRC) as of January 1, 1998. However, there are continuing differences between California and federal law. California has not conformed to most of the changes made to the IRC by the federal Internal Revenue Service Restructuring and Reform Act of 1998 (Public Law 105-206) and the Ticket to Work and Work Incentives Improvement Act of 1999 (Public Law 106-170). California has not conformed to any of the changes made by the Tax and Trade Relief Extension Act of 1998 (Public Law 105-277), the Miscellaneous Trade and Technical Corrections Act of 1999 (Public Law 106-36), the FSC Repeal and Extraterritorial Income Exclusion Act of 2000 (Public Law 106-519), the Consolidated Appropriations Act of 2001 (Public Law 106-554), and the Economic Growth and Tax Relief Reconciliation Act of 2001 (Public Law 107-16).

The general Net Operating Loss (NOL) carryover percentage has changed. For taxable years beginning on or after:

- January 1, 2000, and before January 1, 2002, 55% of the NOL may be carried forward;
- January 1, 2002, and before January 1, 2004, 60% of the NOL may be carried forward; and

- After January 1, 2004, 65% of the NOL may be carried forward.

Also, any NOL incurred in any taxable year beginning on or after January 1, 2000 may be carried forward for 10 years.

In 1998, the Franchise Tax Board (FTB) implemented the new principal business activity (PBA) code chart that is based on the North American Industry Classification System (NAICS) in the corporate tax booklets. However, the California R&TC still uses the Standard Industrial Codes (SIC) for purposes of the new business and eligible small business NOL.

The Los Angeles Revitalization Zone (LARZ) expired on December 1, 1998. No new LARZ NOLs may be generated. However, LARZ NOL carryovers can be utilized to the extent of business income apportioned to the former LARZ. Get FTB 3806, Los Angeles Revitalization Zone Business Booklet, for more information.

### A Purpose

Use form FTB 3805Q to figure the current year NOL and to limit NOL and disaster loss carryover deductions.

**Note:** Exempt trusts should use form FTB 3805V, Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations – Individuals, Estates, and Trusts.

The California NOL is figured the same way as the federal NOL, except that for California:

- An NOL may be carried over only to future years (no carrybacks are allowed); and
- The carryover period and the amount to be carried over differ from federal allowances.

Only a portion of the NOL may be eligible for carryover to future years because California has established different categories of NOL. See General Information F, Types of NOLs, for more information.

**Note:** If the corporation has a current year NOL under R&TC Section 24416.2, 24416.5, 24416.6, and 24416.7 (relating to Pierce's disease, EZ, LAMBRA, or TTA NOLs), the corporation **must elect** on its return for the taxable year in which the loss is incurred to carry over the loss either under that section or the loss under R&TC Section 24416 (relating to general NOLs). If the corporation elects to compute the NOL under R&TC Section 24416.1(c) (relating to Pierce's disease, EZ, LAMBRA, or TTA NOLs), the corporation must:

- Make the election in a statement attached to the original return; and
- Use the applicable Pierce's disease form or economic development area (EDA) form to calculate the NOL.

The election is irrevocable. Get form FTB 3805D, form FTB 3805Z, form FTB 3807, or form FTB 3809 for more information.

### B Apportioning Corporations

The loss carryover for a corporation that apportions income is the amount of the corporation's loss, if any, after adding income or loss apportioned to California with income or loss allocable to California under Chapter 17 of the Corporation Tax Law. The loss carryover may be deducted from income of that corporation apportioned and allocable to California in subsequent years.

### C Combined Reporting

Corporations that are members of a unitary group filing a single return must use intrastate apportionment, separately computing the loss carryover for each corporation in the group using its individual apportionment factors (R&TC Section 25108). Complete a separate form FTB 3805Q for **each** taxpayer included in the combined report. Attach the form FTB 3805Q for **each** taxpayer member included in the combined report **behind** the combined form FTB 3805Q for all members.

Unlike the loss treatment for a federal consolidated return, a California loss carryover for one member in a combined report may not be applied to the income of another member included in the combined report. Get FTB Pub. 1061, Guidelines for Corporations Filing a Combined Report, for more information.

### D Water's-Edge

Each taxpayer's NOL carryover is limited to the amount determined by recomputing the income and factors of the original worldwide combined reporting group as if the water's-edge election had been in force for the year of the loss. The NOL carryover may not be increased as a result of the recomputation.

### E S Corporations

An S corporation is allowed to carry over a loss that is incurred during a year in which it has in effect a valid election to be treated as an S corporation. The loss is also separately calculated under the pass through rules and passed to the shareholders in the year incurred and is taken into account in determining each shareholder's NOL carryover, if any.

If a corporation changes from a C corporation to an S corporation, the loss incurred while the corporation was a C corporation may not be applied to offset income subject to the 1.5% tax imposed on an S corporation.

However, losses incurred while the corporation was a C corporation may be applied against the built-in gains which are subject to tax. If the corporation incurred losses while it was a C corporation and an S corporation, and the S corporation is using C corporation losses to offset its built-in gains, the corporation must complete two forms FTB 3805Q and attach them to Form 100S, California S Corporation Franchise or Income Tax Return. The unused losses incurred while the corporation was a C corporation are "unavailable" except as provided for above unless and

until the S corporation reverts back to a C corporation or the carryover period expires. However, if an S corporation changes to a C corporation, any S corporation NOLs are lost.

## F Types of NOLs

The table below shows the types of NOL available, a description, and the percentages and carryover periods for each type of loss.

## Specific Line Instructions

### Part I

Use Part I of this form to figure the current year NOL eligible for carryover.

**Line 2** – If the corporation incurred a disaster loss during 2001, enter the amount of the loss on this line. Enter as a positive number.

Type of NOL and Description	Taxable Year NOL Incurred	NOL Carried Over	Carryover Period
<p><b>General NOL (GEN)</b> Available as a result of a loss incurred in years after 1986 and allowed under R&amp;TC Section 24416. Does not include losses incurred from activities that qualify as a new business, an eligible small business, EZ, LARZ, LAMBRA, TTA, disaster loss, or Pierce's disease.</p> <p><b>New Business NOL (NB)</b> Get FTB Legal Ruling 96-5 for more information. Incurred by a trade or business that first commenced in California on or after January 1, 1994. During the first three years of business, 100% of an NOL may be carried over for ten years, but only to the extent of the net loss from the new business. The term "new business" also includes any taxpayer engaged in biopharmaceutical activities or other biotechnology activities described in Codes 2833 to 2836 of the SIC Manual. It also includes any taxpayer that has not received regulatory approval for any product from the United States Food and Drug Administration. See R&amp;TC Section 24416(g)(7)(A) for more information. If a taxpayer's NOL exceeds the net loss from the new business, the excess may be carried over as a general NOL. If a taxpayer acquires assets of an existing trade or business which is doing business in California, the trade or business conducted by the taxpayer or related person is not a new business if the fair market value (FMV) of the acquired assets exceeds 20% of the FMV of the total assets of the trade or business conducted by the taxpayer or any related person. To determine whether the acquired assets exceed 20% of the total assets, include only the assets that continue to be used in the same trade or business activity as were used immediately prior to the acquisition. For this purpose, the same trade or business activity means the same division classification listed in the SIC Manual. If a taxpayer or related person has been engaged in a trade or business in California within the preceding 36 months and then starts an additional trade or business in California, the additional trade or business qualifies as a new business only if the activity is classified under a different division classification of the SIC Manual. Business activities conducted by the taxpayer or related persons wholly outside California are disregarded in determining whether the trade or business conducted within California is a new business. Related persons are defined in IRC Sections 267 or 318.</p>	<p>2000-2001 1996-1999 1987-1995</p> <p>On or after 01/01/2000</p> <p>Before 01/01/2000</p> <p>Year of Business</p> <p>Year 1 Year 2 Year 3</p>	<p>55% 50% None</p> <p>100%</p> <p>100% 100% 100%</p>	<p>10 Years 5 Years Expired</p> <p>10 Years</p> <p>8 Years 7 Years 6 Years</p>
<p><b>Eligible Small Business (ESB)</b> Get Legal Ruling 96-5 for more information. Incurred in a trade or business activity that has gross receipts, less returns and allowances, of less than \$1 million during the taxable year. 100% of an NOL may be carried over, but only to the extent of the net loss from the eligible small business. If a taxpayer's NOL exceeds the net loss from an eligible small business, the excess may be carried over as a general NOL. The corporation should use the same SIC Code division classifications described in the new business NOL section to determine what constitutes a trade or business activity.</p>	<p>On or after 01/01/2000</p> <p>On or after 01/01/1994 and before 01/01/2000</p>	<p>100%</p> <p>100%</p>	<p>10 Years</p> <p>5 Years</p>
<p><b>Title 11 Bankruptcy (T11)</b> If the corporation is claiming an NOL carryover deduction under the provisions of R&amp;TC Section 24416(e)(4)(A), enter the carryover amount on Part II, line 2.</p>	<p>1987-1993</p>	<p>50%</p>	<p>10 Years</p>
<p><b>Disaster Losses (DIS)</b> Casualty losses in areas of California declared by the President of the United States or the Governor of California to be in a state of disaster. An election may be made under IRC 165(i) permitting the disaster loss to be taken against the previous year's income. If you made this election, see current year NOLs, Part II, line 3. If special legislation is enacted under R&amp;TC Section 24347.5 and the specified disaster loss exceeds income in the year it is claimed, 100% of the excess may be carried over for up to 5 taxable years. If any excess loss remains after the 5-year period, 50% of that remaining loss may be carried over for up to 10 additional taxable years for losses occurred in any taxable years beginning before January 1, 2000, or 55% for losses occurred in any taxable years beginning on or after January 1, 2000 and before January 1, 2002.</p>	<p>See "Designated Disasters list" on next page.</p>	<p>100%</p> <p>50% or 55% See instructions</p>	<p>First 5 Years</p> <p>10 Years Thereafter</p>

**Line 3** – If the amount is zero or less, the corporation does not have a current year general NOL. Go to Part II for computation of general NOL carryovers, the current year disaster loss, and carryover from disaster losses.

**Line 7** – Go to Part II, Current Year NOLs, to record your 2001 NOL carryover to 2002. Complete columns (b), (c), (d), and (h) only, for each type of loss that you incurred.

If you have an eligible qualified new business or a small business and your NOL is greater than the amount of net loss from such a business, use the general NOL first. If you operate one or more new businesses and one or more eligible small businesses, determine the amount of the loss attributable to the new business(es), the small business(es), and the general NOL in the following manner. The NOL is first treated as a new business NOL to the extent of the loss from the new business. Any remaining NOL is then treated as an eligible small business NOL to the extent of the loss from the eligible small business. Any further remaining NOL is treated as an NOL under the general rules.

## Part II

Use Part II to limit current year disaster loss and loss carryover deductions to current year income and to record all of the corporation's loss carryover information.

If the corporation has losses from more than one source and/or more than one category, the corporation must compute the allowable NOL carryover for **each** loss separately.

### When to use an NOL carryover

Use your NOLs in the order the losses were incurred. There is no requirement to deduct NOL carryovers before disaster loss carryovers.

### Prior Year NOLs

**Column (a)** – Enter the year the loss was incurred.

**Column (b)** – If the loss is due to a disaster, enter the disaster code from the list below. If the loss is from a new business or eligible small business, enter the SIC Code for the new business or eligible small business from the Standard Industrial Classification Manual. DO NOT enter the code from the PBA chart available in the 2001 Form 100, Form 100W, or Form 100S booklets. If the loss was from an S Corporation, enter the entity's federal employer identification number from Schedule K-1 (100S).

Following is a list of events that have been declared disasters:

Year	Code	Event
2000	21	Napa County earthquake
1999	20	Wildfires and other related casualties*
1999	19	Winter Freeze 98/99
1998		
1998	18	El Niño 98
1997	17	Disaster floods 96/97
1996		
1996	16	Firestorms 96*
1995	15	Storms, flooding, and other related casualties
1994	14	San Luis Obispo fire and other related casualties
1994	13	Los Angeles, Orange, and Ventura County earthquake and other related casualties
1993	12	Storms, floods, and other related casualties
1992	11	Wildfires and other related casualties in Calaveras and Shasta Counties
1992	10	San Bernardino County earthquake and other related casualties
1992	9	Riots, arson, and related casualties in California during April and May
1992	8	Humboldt County earthquake and related casualties
1992	7	Storms, floods, and other related casualties
1991	6	Oakland/Berkeley fire and other related casualties
1990	5	Santa Barbara fires and other related casualties
1989	4	Bay Area earthquake and other related casualties
1987	3	Forest fires, October earthquake, and other related casualties
1986	2	Storms, floods, and other related casualties
1985	1	Forest fires and related casualties occurring in California

\*Carryover period and percentage are limited to the NOL rules. No special legislation was enacted.

**Column (c)** – Enter the type of NOL from the table in General Information F, Types of NOLs. If using a Pierce's disease, an EDA NOL, get the applicable form for the NOL type.

**Column (d)** – Enter 100% of the initial loss for the year given in column (a).

**Column (e)** – Enter the carryover amount from the 2000 form FTB 3805Q, Part II, column (h).

**Column (f)** – Enter the smaller of the amount in column (e) or the amount in column (g) of the previous line.

**Column (g)** – Enter the result of subtracting column (f) from the balance in column (g) of the previous line.

**Column (h)** – Subtract the amount in column (f) from the amount in column (e) and enter the result.

## Current Year NOLs

**Note:** As of the date of the publication of this form, no California designated disaster losses had occurred in tax year 2001. However, if a disaster loss occurs between the date of the publication and the end of the taxable year, please go to our Website at: [www.ftb.ca.gov](http://www.ftb.ca.gov) for an updated version of this form, which will include the information for any subsequent disaster loss and follow line 3 instructions.

### Line 3 – Current year Disaster Loss

If you did not elect to deduct your current year disaster loss in the prior year:

- Column (a), (b), and (c) are entered.
- In column (d), enter your 2001 disaster loss from Part I, line 2.
- In column (f), enter the disaster loss used in 2001.
- In column (h), enter column (d) less column (f).

If you elected to deduct your 2001 disaster loss on your 2000 tax return, and you have an excess amount to be carried over to 2001, enter the carryover amount in Part II, line 2, column (e). Use the Prior Year NOL instructions for column (a) through column (h) except:

- In column (a), enter 2001;
- In column (b), enter the new disaster code; and
- In column (d), enter the total disaster loss incurred in 2001.



## Principal Business Activity Codes

This list of principal business activities and their associated codes is designed to classify a business by the type of activity in which it is engaged to facilitate the administration of the California Revenue and Taxation Code. For taxable years beginning after 1997, these principal business activity codes are based on the North American Industry Classification System (NAICS).

Using the list of activities and codes below, determine from which activity the company derives the largest percentage of its "total receipts." Total receipts is defined as the sum of gross receipts or sales (Side 2, Schedule F, line 1a) plus all other income (Side 2, Schedule F, line 4 and line 5). If the company purchases raw materials and supplies them to a subcontractor to produce the finished product, but retains title to the product, the company is considered a manufacturer and must use one of the manufacturing codes (311110-339900).

Once the principal business activity is determined, entries must be made on Form 100S, Question C. For the business activity code number, enter the six digit code selected from the list below. On the next line enter a brief description of the company's business activity. Finally, enter a description of the principal product or service of the company on the next line.

### Agriculture, Forestry, Fishing, and Hunting

#### Code

#### Crop Production

- 111100 Oilseed & Grain Farming
- 111210 Vegetable & Melon Farming (including potatoes & yams)
- 111300 Fruit & Tree Nut Farming
- 111400 Greenhouse, Nursery, & Floriculture Production
- 111900 Other Crop Farming (including tobacco, cotton, sugarcane, hay, peanut, sugar beet, & all other crop farming)

#### Animal Production

- 112111 Beef Cattle Ranching & Farming
- 112112 Cattle Feedlots
- 112120 Dairy Cattle & Milk Production
- 112210 Hog & Pig Farming
- 112300 Poultry & Egg Production
- 112400 Sheep & Goat Farming
- 112510 Animal Aquaculture (including shellfish & finfish farms & hatcheries)
- 112900 Other Animal Production

#### Forestry and Logging

- 113110 Timber Tract Operations
- 113210 Forest Nurseries & Gathering of Forest Products
- 113310 Logging

#### Fishing, Hunting and Trapping

- 114110 Fishing
- 114210 Hunting & Trapping

#### Support Activities for Agriculture and Forestry

- 115110 Support Activities for Crop Production (including cotton ginning, soil preparation, planting, & cultivating)
- 115210 Support Activities for Animal Production
- 115310 Support Activities for Forestry

#### Mining

- 211110 Oil & Gas Extraction
- 212110 Coal Mining
- 212200 Metal Ore Mining
- 212310 Stone Mining & Quarrying
- 212320 Sand, Gravel, Clay, & Ceramic & Refractory

#### Minerals Mining & Quarrying

- 212390 Other Nonmetallic Mineral Mining & Quarrying
- 213110 Support Activities for Mining

#### Utilities

- 221100 Electric Power Generation, Transmission, & Distribution
- 221210 Natural Gas Distribution
- 221300 Water, Sewage, & Other Systems

### Construction

#### Code

#### Building, Developing, and General Contracting

- 233110 Land Subdivision & Land Development
- 233200 Residential Building Construction
- 233300 Nonresidential Building Construction

#### Heavy Construction

- 234100 Highway, Street, Bridge, & Tunnel Construction
- 234900 Other Heavy Construction

#### Special Trade Contractors

- 235110 Plumbing, Heating, & Air-Conditioning Contractors
- 235210 Painting & Wall Covering Contractors
- 235310 Electrical Contractors
- 235400 Masonry, Drywall, Insulation, & Tile Contractors
- 235500 Carpentry & Floor Contractors
- 235610 Roofing, Siding, & Sheet Metal Contractors
- 235710 Concrete Contractors
- 235810 Water Well Drilling Contractors
- 235900 Other Special Trade Contractors

### Manufacturing

#### Food Manufacturing

- 311110 Animal Food Mfg
- 311200 Grain & Oilseed Milling
- 311300 Sugar & Confectionery Product Mfg
- 311400 Fruit & Vegetable Preserving & Specialty Food Mfg
- 311500 Dairy Product Mfg
- 311610 Animal Slaughtering and Processing
- 311710 Seafood Product Preparation & Packaging
- 311800 Bakeries & Tortilla Mfg
- 311900 Other Food Mfg (including coffee, tea, flavorings, & seasonings)

#### Beverage and Tobacco Product Manufacturing

- 312110 Soft Drink & Ice Mfg
- 312120 Breweries
- 312130 Wineries
- 312140 Distilleries
- 312200 Tobacco Manufacturing

#### Textile Mills and Textile Product Mills

- 313000 Textile Mills
- 314000 Textile Product Mills

#### Apparel Manufacturing

- 315100 Apparel Knitting Mills
- 315210 Cut & Sew Apparel Contractors
- 315220 Men's & Boys' Cut & Sew Apparel Mfg

#### Code

- 315230 Women's & Girls' Cut & Sew Apparel Mfg
- 315290 Other Cut & Sew Apparel Mfg
- 315990 Apparel Accessories & Other Apparel Mfg

#### Leather and Allied Product Manufacturing

- 316110 Leather & Hide Tanning & Finishing
- 316210 Footwear Mfg (including rubber & plastics)
- 316990 Other Leather & Allied Product Mfg

#### Wood Product Manufacturing

- 321110 Sawmills & Wood Preservation
- 321210 Veneer, Plywood, & Engineered Wood Product Mfg
- 321900 Other Wood Product Mfg

#### Paper Manufacturing

- 322100 Pulp, Paper, & Paperboard Mills
- 322200 Converted Paper Product Mfg

#### Printing and Related Support Activities

- 323100 Printing & Related Support Activities

#### Petroleum and Coal Products Manufacturing

- 324110 Petroleum Refineries (including integrated)
- 324120 Asphalt Paving, Roofing, & Saturated Materials Mfg
- 324190 Other Petroleum & Coal Products Mfg

#### Chemical Manufacturing

- 325100 Basic Chemical Mfg
- 325200 Resin, Synthetic Rubber, & Artificial & Synthetic Fibers & Filaments Mfg
- 325300 Pesticide, Fertilizer, & Other Agricultural Chemical Mfg
- 325410 Pharmaceutical & Medicine Mfg
- 325500 Paint, Coating, & Adhesive Mfg
- 325600 Soap, Cleaning Compound, & Toilet Preparation Mfg
- 325900 Other Chemical Product & Preparation Mfg

#### Plastics and Rubber Products Manufacturing

- 326100 Plastics Product Mfg
- 326200 Rubber Product Mfg

#### Nonmetallic Mineral Product Manufacturing

- 327100 Clay Product & Refractory Mfg
- 327210 Glass & Glass Product Mfg
- 327300 Cement & Concrete Product Mfg
- 327400 Lime & Gypsum Product Mfg
- 327900 Other Nonmetallic Mineral Product Mfg

#### Primary Metal Manufacturing

- 331110 Iron & Steel Mills & Ferroalloy Mfg
- 331200 Steel Product Mfg from Purchased Steel
- 331310 Alumina & Aluminum Production & Processing
- 331400 Nonferrous Metal (except Aluminum) Production & Processing
- 331500 Foundries

#### Fabricated Metal Product Manufacturing

- 332110 Forging & Stamping
- 332210 Cutlery & Handtool Mfg
- 332300 Architectural & Structural Metals Mfg
- 332400 Boiler, Tank, & Shipping Container Mfg
- 332510 Hardware Mfg
- 332610 Spring & Wire Product Mfg
- 332700 Machine Shops, Turned Product, & Screw, Nut, & Bolt Mfg
- 332810 Coating, Engraving, Heat Treating, & Allied Activities

#### Code

- 332900 Other Fabricated Metal Product Mfg

#### Machinery Manufacturing

- 333100 Agriculture, Construction, & Mining Machinery Mfg
- 333200 Industrial Machinery Mfg
- 333310 Commercial & Service Industry Machinery Mfg
- 333410 Ventilation, Heating, Air-Conditioning, & Commercial Refrigeration Equipment Mfg
- 333510 Metalworking Machinery Mfg
- 333610 Engine, Turbine, & Power Transmission Equipment Mfg
- 333900 Other General Purpose Machinery Mfg

#### Computer and Electronic Product Manufacturing

- 334110 Computer & Peripheral Equipment Mfg
- 334200 Communications Equipment Mfg
- 334310 Audio & Video Equipment Mfg
- 334410 Semiconductor & Other Electronic Component Mfg
- 334500 Navigational, Measuring, Electromedical, & Control Instruments Mfg
- 334610 Manufacturing & Reproducing Magnetic & Optical Media

#### Electrical Equipment, Appliance, and Component Manufacturing

- 335100 Electric Lighting Equipment Mfg
- 335200 Household Appliance Mfg
- 335310 Electrical Equipment Mfg
- 335900 Other Electrical Equipment & Component Mfg

#### Transportation Equipment Manufacturing

- 336100 Motor Vehicle Mfg
- 336210 Motor Vehicle Body & Trailer Mfg
- 336300 Motor Vehicle Parts Mfg
- 336410 Aerospace Product & Parts Mfg
- 336510 Railroad Rolling Stock Mfg
- 336610 Ship & Boat Building
- 336990 Other Transportation Equipment Mfg

#### Furniture and Related Product Manufacturing

- 337000 Furniture & Related Product Manufacturing

#### Miscellaneous Manufacturing

- 339110 Medical Equipment & Supplies Mfg
- 339900 Other Miscellaneous Manufacturing

### Wholesale Trade

#### Wholesale Trade, Durable Goods

- 421100 Motor Vehicle & Motor Vehicle Parts & Supplies Wholesalers
- 421200 Furniture & Home Furnishing Wholesalers
- 421300 Lumber & Other Construction Materials Wholesalers
- 421400 Professional & Commercial Equipment & Supplies Wholesalers
- 421500 Metal & Mineral (except Petroleum) Wholesalers
- 421600 Electrical Goods Wholesalers
- 421700 Hardware & Plumbing & Heating Equipment & Supplies Wholesalers
- 421800 Machinery, Equipment, & Supplies Wholesalers
- 421910 Sporting & Recreational Goods & Supplies Wholesalers
- 421920 Toy & Hobby Goods & Supplies Wholesalers
- 421930 Recyclable Material Wholesalers
- 421940 Jewelry, Watch, Precious Stone, & Precious Metal Wholesalers
- 421990 Other Miscellaneous Durable Goods Wholesalers

Code	
<b>Wholesale Trade, Nondurable Goods</b>	
422100	Paper & Paper Product Wholesalers
422210	Drugs & Druggists' Sundries Wholesalers
422300	Apparel, Piece Goods, & Notions Wholesalers
422400	Grocery & Related Product Wholesalers
422500	Farm Product Raw Material Wholesalers
422600	Chemical & Allied Products Wholesalers
422700	Petroleum & Petroleum Products Wholesalers
422800	Beer, Wine, & Distilled Alcoholic Beverage Wholesalers
422910	Farm Supplies Wholesalers
422920	Book, Periodical, & Newspaper Wholesalers
422930	Flower, Nursery Stock, & Florists' Supplies Wholesalers
422940	Tobacco & Tobacco Product Wholesalers
422950	Paint, Varnish, & Supplies Wholesalers
422990	Other Miscellaneous Nondurable Goods Wholesalers

### Retail Trade

Code	
<b>Motor Vehicle and Parts Dealers</b>	
441110	New Car Dealers
441120	Used Car Dealers
441210	Recreational Vehicle Dealers
441221	Motorcycle Dealers
441222	Boat Dealers
441229	All Other Motor Vehicle Dealers
441300	Automotive Parts, Accessories, & Tire Stores

Code	
<b>Furniture and Home Furnishings Stores</b>	
442110	Furniture Stores
442210	Floor Covering Stores
442291	Window Treatment Stores
442299	All Other Home Furnishings Stores

Code	
<b>Electronics and Appliance Stores</b>	
443111	Household Appliance Stores
443112	Radio, Television, & Other Electronics Stores
443120	Computer & Software Stores
443130	Camera & Photographic Supplies Stores

Code	
<b>Building Material and Garden Equipment and Supplies Dealers</b>	
444110	Home Centers
444120	Paint & Wallpaper Stores
444130	Hardware Stores
444190	Other Building Material Dealers
444200	Lawn & Garden Equipment & Supplies Stores

Code	
<b>Food and Beverage Stores</b>	
445110	Supermarkets and Other Grocery (except Convenience) Stores
445120	Convenience Stores
445210	Meat Markets
445220	Fish & Seafood Markets
445230	Fruit & Vegetable Markets
445291	Baked Goods Stores
445292	Confectionery & Nut Stores
445299	All Other Specialty Food Stores
445310	Beer, Wine, & Liquor Stores

Code	
<b>Health and Personal Care Stores</b>	
446110	Pharmacies & Drug Stores
446120	Cosmetics, Beauty Supplies, & Perfume Stores
446130	Optical Goods Stores
446190	Other Health & Personal Care Stores

Code	
<b>Gasoline Stations</b>	
447100	Gasoline Stations (including convenience stores with gas)

Code	
<b>Clothing and Clothing Accessories Stores</b>	
448110	Men's Clothing Stores
448120	Women's Clothing Stores
448130	Children's & Infants' Clothing Stores
448140	Family Clothing Stores
448150	Clothing Accessories Stores
448190	Other Clothing Stores
448210	Shoe Stores
448310	Jewelry Stores
448320	Luggage & Leather Goods Stores

Code	
<b>Sporting Goods, Hobby, Book, and Music Stores</b>	
451110	Sporting Goods Stores
451120	Hobby, Toy, & Game Stores
451130	Sewing, Needlework, & Piece Goods Stores
451140	Musical Instrument & Supplies Stores
451211	Book Stores
451212	News Dealers & Newsstands
451220	Prerecorded Tape, Compact Disc, & Record Stores

Code	
<b>General Merchandise Stores</b>	
452110	Department stores
452900	Other General Merchandise Stores

Code	
<b>Miscellaneous Store Retailers</b>	
453110	Florists
453210	Office Supplies & Stationery Stores
453220	Gift, Novelty, & Souvenir Stores
453310	Used Merchandise Stores
453910	Pet & Pet Supplies Stores
453920	Art Dealers
453930	Manufactured (Mobile) Home Dealers
453990	All Other Miscellaneous Store Retailers (including tobacco, candle, & trophy shops)

Code	
<b>Nonstore Retailers</b>	
454110	Electronic Shopping & Mail-Order Houses
454210	Vending Machine Operators
454311	Heating Oil Dealers
454312	Liquefied Petroleum Gas (Bottled Gas) Dealers
454319	Other Fuel Dealers
454390	Other Direct Selling Establishments (including door-to-door retailing, frozen food plan providers, party plan merchandisers, & coffee-break service providers)

Code	
<b>Transportation and Warehousing</b>	
<b>Air, Rail, and Water Transportation</b>	
481000	Air Transportation
482110	Rail Transportation
483000	Water Transportation

Code	
<b>Truck Transportation</b>	
484110	General Freight Trucking, Local
484120	General Freight Trucking, Long-distance
484200	Specialized Freight Trucking

Code	
<b>Transit and Ground Passenger Transportation</b>	
485110	Urban Transit Systems
485210	Interurban & Rural Bus Transportation
485310	Taxi Service
485320	Limousine Service
485410	School & Employee Bus Transportation
485510	Charter Bus Industry
485990	Other Transit & Ground Passenger Transportation

Code	
<b>Pipeline Transportation</b>	
486000	Pipeline Transportation
<b>Scenic &amp; Sightseeing Transportation</b>	
487000	Scenic & Sightseeing Transportation

Code	
<b>Support Activities for Transportation</b>	
488100	Support Activities for Air Transportation
488210	Support Activities for Rail Transportation
488300	Support Activities for Water Transportation
488410	Motor Vehicle Towing
488490	Other Support Activities for Road Transportation
488510	Freight Transportation Arrangement
488990	Other Support Activities for Transportation

Code	
<b>Couriers and Messengers</b>	
492110	Couriers
492210	Local Messengers & Local Delivery

Code	
<b>Warehousing and Storage</b>	
493100	Warehousing & Storage (except lessors of miniwarehouses & self-storage units)

Code	
<b>Information Publishing Industries</b>	
511110	Newspaper Publishers
511120	Periodical Publishers
511130	Book Publishers
511140	Database & Directory Publishers
511190	Other Publishers
512100	Software Publishers

Code	
<b>Motion Picture and Sound Recording Industries</b>	
512100	Motion Picture & Video Industries (except video rental)
512200	Sound Recording Industries

Code	
<b>Broadcasting and Telecommunications</b>	
513100	Radio & Television Broadcasting
513200	Cable Networks & Program Distribution
513300	Telecommunications (including paging, cellular, satellite, & other telecommunications)

Code	
<b>Information Services and Data Processing Services</b>	
514100	Information Services (including news syndicates, libraries, & on-line information services)
514210	Data Processing Services

Code	
<b>Finance and Insurance</b>	
<b>Depository Credit Intermediation</b>	
522110	Commercial Banking
522120	Savings Institutions
522130	Credit Unions
522190	Other Depository Credit Intermediation

Code	
<b>Nondepository Credit Intermediation</b>	
522210	Credit Card Issuing
522220	Sales Financing
522291	Consumer Lending
522292	Real Estate Credit (including mortgage bankers & originators)
522293	International Trade Financing
522294	Secondary Market Financing
522298	All Other Nondepository Credit Intermediation

Code	
<b>Activities Related to Credit Intermediation</b>	
522300	Activities Related to Credit Intermediation (including loan brokers)

Code	
<b>Securities, Commodity Contracts, and Other Financial Investments and Related Activities</b>	
523110	Investment Banking & Securities Dealing
523120	Securities Brokerage
523130	Commodity Contracts Dealing
523140	Commodity Contracts Brokerage

Code	
523210	Securities & Commodity Exchanges
523900	Other Financial Investment Activities (including portfolio management & investment advice)

### Insurance Carriers and Related Activities

Code	
524140	Direct Life, Health, & Medical Insurance & Reinsurance Carriers
524150	Direct Insurance & Reinsurance (except Life, Health, & Medical) Carriers
524210	Insurance Agencies & Brokerages
524290	Other Insurance Related Activities

### Funds, Trusts, and Other Financial Vehicles

Code	
525100	Insurance & Employee Benefit Funds
525910	Open-End Investment Funds (Form 1120-RIC)
525920	Trusts, Estates, & Agency Accounts
525930	Real Estate Investment Trusts (Form 1120-REIT)
525990	Other Financial Vehicles

### Real Estate and Rental and Leasing

Code	
<b>Real Estate</b>	
531110	Lessors of Residential Buildings & Dwellings
531120	Lessors of Nonresidential Buildings (except Miniwarehouses)
531130	Lessors of Miniwarehouses & Self-Storage Units
531190	Lessors of Other Real Estate Property
531210	Offices of Real Estate Agents & Brokers
531310	Real Estate Property Managers
531320	Offices of Real Estate Appraisers
531390	Other Activities Related to Real Estate

Code	
<b>Rental and Leasing Services</b>	
532100	Automotive Equipment Rental & Leasing
532210	Consumer Electronics & Appliances Rental
532220	Formal Wear & Costume Rental
532230	Video Tape & Disc Rental
532290	Other Consumer Goods Rental
532310	General Rental Centers
532400	Commercial & Industrial Machinery & Equipment Rental & Leasing
<b>Lessors of Nonfinancial Intangible Assets (except copyrighted works)</b>	
533110	Lessors of Nonfinancial Intangible Assets (except copyrighted works)

### Professional, Scientific, and Technical Services

Code	
<b>Legal Services</b>	
541110	Offices of Lawyers
541190	Other Legal Services
<b>Accounting, Tax Preparation, Bookkeeping, and Payroll Services</b>	
541211	Offices of Certified Public Accountants
541213	Tax Preparation Services
541214	Payroll Services
541219	Other Accounting Services

Code	
<b>Architectural, Engineering, and Related Services</b>	
541310	Architectural Services
541320	Landscape Architecture Services
541330	Engineering Services
541340	Drafting Services
541350	Building Inspection Services

<i>Code</i>	
541360	Geophysical Surveying & Mapping Services
541370	Surveying & Mapping (except Geophysical) Services
541380	Testing Laboratories
<b>Specialized Design Services</b>	
541400	Specialized Design Services (including interior, industrial, graphic, & fashion design)
<b>Computer Systems Design and Related Services</b>	
541511	Custom Computer Programming Services
541512	Computer Systems Design Services
541513	Computer Facilities Management Services
541519	Other Computer Related Services
<b>Other Professional, Scientific, and Technical Services</b>	
541600	Management, Scientific, & Technical Consulting Services
541700	Scientific Research & Development Services
541800	Advertising & Related Services
541910	Marketing Research & Public Opinion Polling
541920	Photographic Services
541930	Translation & Interpretation Services
541940	Veterinary Services
541990	All Other Professional, Scientific, & Technical Services
<b>Management of Companies (Holding Companies)</b>	
551111	Offices of Bank Holding Companies
551112	Offices of Other Holding Companies
<b>Administrative and Support and Waste Management and Remediation Services</b>	
<b>Administrative and Support Services</b>	
561110	Office Administrative Services
561210	Facilities Support Services
561300	Employment Services
561410	Document Preparation Services
561420	Telephone Call Centers
561430	Business Service Centers (including private mail centers & copy shops)
561440	Collection Agencies
561450	Credit Bureaus
561490	Other Business Support Services (including repossession services, court reporting, & stenotype services)

<i>Code</i>	
561500	Travel Arrangement & Reservation Services
561600	Investigation & Security Services
561710	Exterminating & Pest Control Services
561720	Janitorial Services
561730	Landscaping Services
561740	Carpet & Upholstery Cleaning Services
561790	Other Services to Buildings & Dwellings
561900	Other Support Services (including packaging & labeling services, & convention & trade show organizers)
<b>Waste Management and Remediation Services</b>	
562000	Waste Management & Remediation Services
<b>Educational Services</b>	
611000	Educational Services (including schools, colleges, & universities)
<b>Health Care and Social Assistance</b>	
<b>Offices of Physicians and Dentists</b>	
621111	Offices of Physicians (except mental health specialists)
621112	Offices of Physicians, Mental Health Specialists
621210	Offices of Dentists
<b>Offices of Other Health Practitioners</b>	
621310	Offices of Chiropractors
621320	Offices of Optometrists
621330	Offices of Mental Health Practitioners (except Physicians)
621340	Offices of Physical, Occupational & Speech Therapists, & Audiologists
621391	Offices of Podiatrists
621399	Offices of All Other Miscellaneous Health Practitioners
<b>Outpatient Care Centers</b>	
621410	Family Planning Centers
621420	Outpatient Mental Health & Substance Abuse Centers
621491	HMO Medical Centers
621492	Kidney Dialysis Centers
621493	Freestanding Ambulatory Surgical & Emergency Centers
621498	All Other Outpatient Care Centers
<b>Medical and Diagnostic Laboratories</b>	
621510	Medical & Diagnostic Laboratories
<b>Home Health Care Services</b>	
621610	Home Health Care Services

<i>Code</i>	
<b>Other Ambulatory Health Care Services</b>	
621900	Other Ambulatory Health Care Services (including ambulance services & blood & organ banks)
<b>Hospitals</b>	
622000	Hospitals
<b>Nursing and Residential Care Facilities</b>	
623000	Nursing & Residential Care Facilities
<b>Social Assistance</b>	
624100	Individual & Family Services
624200	Community Food & Housing, & Emergency & Other Relief Services
624310	Vocational Rehabilitation Services
624410	Child Day Care Services
<b>Arts, Entertainment, and Recreation</b>	
<b>Performing Arts, Spectator Sports, and Related Industries</b>	
711100	Performing Arts Companies
711210	Spectator Sports (including sports clubs & racetracks)
711300	Promoters of Performing Arts, Sports, & Similar Events
711410	Agents & Managers for Artists, Athletes, Entertainers, & Other Public Figures
711510	Independent Artists, Writers, & Performers
<b>Museums, Historical Sites, and Similar Institutions</b>	
712100	Museums, Historical Sites, & Similar Institutions
<b>Amusement, Gambling, and Recreation Industries</b>	
713100	Amusement Parks & Arcades
713200	Gambling Industries
713900	Other Amusement & Recreation Industries (including golf courses, skiing facilities, marinas, fitness centers, & bowling centers)
<b>Accommodation and Food Services</b>	
<b>Accommodation</b>	
721110	Hotels (except casino hotels) & Motels
721120	Casino Hotels
721191	Bed & Breakfast Inns
721199	All Other Traveler Accommodation
721210	RV (Recreational Vehicle) Parks & Recreational Camps
721310	Rooming & Boarding Houses

<i>Code</i>	
<b>Food Services and Drinking Places</b>	
722110	Full-Service Restaurants
722210	Limited-Service Eating Places
722300	Special Food Services (including food service contractors & caterers)
722410	Drinking Places (Alcoholic Beverages)
<b>Other Services</b>	
<b>Repair and Maintenance</b>	
811110	Automotive Mechanical & Electrical Repair & Maintenance
811120	Automotive Body, Paint, Interior, & Glass Repair
811190	Other Automotive Repair & Maintenance (including oil change & lubrication shops & car washes)
811210	Electronic & Precision Equipment Repair & Maintenance
811310	Commercial & Industrial Machinery & Equipment (except Automotive & Electronic) Repair & Maintenance
811410	Home & Garden Equipment & Appliance Repair & Maintenance
811420	Reupholstery & Furniture Repair
811430	Footwear & Leather Goods Repair
811490	Other Personal & Household Goods Repair & Maintenance
<b>Personal and Laundry Services</b>	
812111	Barber Shops
812112	Beauty Salons
812113	Nail Salons
812190	Other Personal Care Services (including diet & weight reducing centers)
812210	Funeral Homes & Funeral Services
812220	Cemeteries & Crematories
812310	Coin-Operated Laundries & Drycleaners
812320	Drycleaning & Laundry Services (except Coin-Operated)
812330	Linen & Uniform Supply
812910	Pet Care (except Veterinary) Services
812920	Photofinishing
812930	Parking Lots & Garages
812990	All Other Personal Services
<b>Religious, Grantmaking, Civic, Professional, and Similar Organizations</b>	
813000	Religious, Grantmaking, Civic, Professional, & Similar Organizations

# How To Get California Tax Information

## Where To Get Tax Forms and Publications

**By Internet** – You can download, view, and print California tax forms, instructions, and publications. Legal Notices and Rulings dated 96-1 and later are also available. Go to our Website at: [www.ftb.ca.gov](http://www.ftb.ca.gov)

**By phone** – To order California tax forms:

- Refer to the list in the right column and find the code number for the form you want to order.
- Call (800) 338-0505.
- Select business entity tax information.
- Select order forms and publications.
- Enter the three-digit code shown to the left of the form title when you are instructed to do so.

Please allow two weeks to receive your order. If you live outside California, please allow three weeks to receive your order.

**In person** – Many libraries and some quick print businesses have forms and schedules for you to photocopy (a nominal fee may apply).

**Note:** Employees at libraries and quick print businesses cannot provide tax information or assistance.

**By mail** – Write to:

TAX FORMS REQUEST UNIT  
FRANCHISE TAX BOARD  
PO BOX 307  
RANCHO CORDOVA CA 95741-0307

## Letters

If you write to us, be sure to include your California corporation number or federal employer identification number, your daytime and evening telephone numbers, and a copy of the notice with your letter. Send your letter to:

FRANCHISE TAX BOARD  
PO BOX 942857  
SACRAMENTO CA 94257-0540

We will respond to your letter within six weeks. In some cases, we may need to call you for additional information. Do not attach correspondence to your tax return unless the correspondence relates to an item on the return.

## General Toll-Free Phone Service

Our general toll-free phone service is available:

- Monday – Friday, 7 a.m. until 8 p.m.
- Saturdays, 8 a.m. until 5 p.m.

**Note:** We may modify these hours without notice to meet operational needs.

From within the United States . . . . . (800) 852-5711  
From outside the United States (not toll-free) . . . . . (916) 845-6500  
For federal tax questions, call the IRS at . . . . . (800) 829-1040

### Assistance for persons with disabilities

The FTB complies with the Americans with Disabilities Act. Persons with hearing or speech impairment call:

From voice phone (California Relay Service) . . . . . (800) 735-2922  
From TTY/TDD (Direct line to FTB customer service) . . . . . (800) 822-6268  
For all other assistance or special accommodations . . . . . (800) 852-5711

### Asistencia bilingue en espanol

Para obtener servicios en espanol y asistencia para completar su declaracion de impuestos/formularios, llame al numero de telefono (anotado arriba) que le corresponde.

## California Tax Forms and Publications

- 817 California Corporation Tax Forms and Instructions.  
This booklet contains:  
Form 100, California Corporation Franchise or Income Tax Return;  
Schedule P (100), Alternative Minimum Tax and Credit Limitations — Corporations  
FTB 3885, Corporation Depreciation and Amortization  
FTB 3805Q, Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations — Corporations  
FTB 3539, Payment Voucher for Automatic Extension for Corporations and Exempt Organizations
- 816 California S Corporation Tax Forms and Instructions.  
This booklet contains:  
Form 100S, California S Corporation Franchise or Income Tax Return;  
Schedule QS, Qualified Subchapter S Subsidiary (QSub) Information Worksheet  
Schedule B (100S), S Corporation Depreciation and Amortization  
Schedule C (100S), S Corporation Tax Credits  
Schedule H (100S), Dividend Income Deduction  
Schedule D (100S), S Corporation Capital Gains and Losses and Built-In Gains  
Schedule K-1 (100S), Shareholder's Share of Income, Deductions, Credits, etc.  
FTB 3830, S Corporation's List of Shareholders and Consents  
FTB 3539, Payment Voucher for Automatic Extension for Corporations and Exempt Organizations
- 814 Form 109, Exempt Organization Business Income Tax Return  
818 Form 100-ES, Corporation Estimated Tax  
815 Form 199, Exempt Organization Annual Information Return  
820 FTB Pub. 1068, Exempt Organizations Requirements for Filing Returns and Paying Filing Fees  
802 FTB 3500, Exemption Application  
803 FTB 3555, Request for Tax Clearance — Corporations  
831 FTB 3534, Joint Strike Fighter Credit  
835 FTB 3805D, Net Operating Loss (NOL) Computation and Limitation – Pierce's Disease

## Your Rights As A Taxpayer

Our goal at the FTB is to make certain that your rights are protected so that you will have the highest confidence in the integrity, efficiency, and fairness of our state tax system. FTB Pub. 4058, California Taxpayers' Bill of Rights, includes information on your rights as a California taxpayer, the Taxpayers' Rights Advocate Program, and how you can request written advice from the FTB on whether a particular transaction is taxable.

See "Where to Get Tax Forms and Publications" on this page.

Our automated toll-free phone service is available 24 hours a day, 7 days a week, in English and Spanish to callers with touch-tone telephones. To order business entity forms, the automated service is available from 6 a.m. to 8 p.m. Monday through Friday, except state holidays and from 6 a.m. to 6 p.m. Saturdays. You can:

- Order current year California income tax forms, and
- Hear recorded answers to many of your questions about California taxes.

Have paper and pencil ready to take notes.

Call from within the United States . . . . . (800) 338-0505  
Call from outside the United States (not toll-free) . . . . . (916) 845-6600

**To Order Forms**

See "Where to Get Tax Forms and Publications" on the previous page.

**To Get Information**

If you need an answer to any of the following questions, call (800) 338-0505, select business entity tax information, then general tax information, follow the recorded instructions, and enter the three-digit code when instructed to do so.

**Code Filing Assistance**

- 715 If my actual tax is less than the minimum franchise tax, what figure do I put on line 23 of Form 100 or Form 100W?
- 717 What are the current tax rates for corporations?
- 718 How do I get an extension of time to file?
- 722 When do I have to file a short-period return?
- 734 Is my corporation subject to franchise tax or income tax?

**S Corporations**

- 704 Is an S corporation subject to the minimum franchise tax?
- 705 Are S corporations required to file estimated payments?
- 706 What forms do S corporations file?
- 707 The tax for my S corporation is less than the minimum franchise tax. What figure do I put on line 22 of Form 100S?
- 708 Where do S corporations make adjustments for state and federal law differences on Schedule K-1 (100S) and where do nonresident shareholders find their California source income on their Schedule K-1 (100S)?

**Exempt Organizations**

- 709 How do I get tax exempt status?
- 710 Does an exempt organization have to file Form 199?
- 735 How can an exempt organization incorporate without paying corporation fees and costs?
- 736 I have exempt status. Do I need to file Form 100 or Form 109 in addition to Form 199?

**Minimum Tax and Estimate Tax**

- 712 What is the minimum franchise tax?
- 714 My corporation is not doing business; does it have to pay the minimum franchise tax?
- 716 When are my estimated payments due?

**Billings and Miscellaneous Notices**

- 723 I received a bill for \$250. What is this for?
- 728 Why was my corporation suspended?
- 729 Why is my subsidiary getting a request for a return when we filed a combined report?

**Tax Clearance**

- 724 How do I dissolve my corporation?
- 725 What do I have to do to get a tax clearance?
- 726 How long will it take to get a tax clearance certificate?
- 727 My corporation was suspended/forfeited. Can I still get a tax clearance?

**Limited Liability Companies (LLC)**

- 750 How do I organize or register an LLC?
- 751 How do I cancel the registration of my LLC?
- 752 What tax forms do I use to file as an LLC?
- 753 When is the annual tax payment due?
- 754 What extension voucher do I use to pay the LLC fee and/or member tax?
- 755 Where does an LLC send its tax payments?
- 756 As an LLC I never did any business or even opened a door, bank account, or anything. Why do I owe the \$800 annual tax?
- 757 How are the LLC fees calculated?
- 758 If a corporation converted to an LLC during the current year, is the corporation liable for tax as a corporation and an LLC tax/fee in the same year?

**Miscellaneous**

- 700 Who do I need to contact to start a business?
- 701 I need a state ID number for my business. Who do I contact?
- 702 Can you send me an employer's tax guide?
- 703 How do I incorporate?
- 719 How do I properly identify my corporation when dealing with the Franchise Tax Board?
- 720 How do I obtain information about changing my corporation's name?
- 721 How do I change my accounting period?
- 737 Where do I send my payment?
- 738 What is electronic funds transfer?
- 739 How do I get a copy of my state corporate tax return?
- 740 What requirements do I have to report municipal bond interest paid by a state other than California?
- 759 If I have nonresident members and cannot get all their signatures on the consent release form, can I still file the return?

